Financial Problems of Indian States under Federation

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SAHIBZADA A. WAJID KHAN
M.A. (Alig.), Ph.D. (Economics) London
Formerly Secretary to His Highness the Chancellor of the Chamber of Princes

PREFACE
by
DR. HUGH DALTON
M.A. (Cantab.), D.Sc. (Economics) London
Reader in Economics in the University of London

JARROLDS *Publishers* LONDON
Limited, 34 *Paternoster Row, E.C.*4
MCMXXXV

Thesis approved for the Degree of Doctor of Philosophy in the University of London.

MADE IN GREAT BRITAIN

PRINTED BY THE LONDON AND NORWICH PRESS, LIMITED
ST. GILES WORKS, NORWICH

To

Lieut.-General His Highness Farzand-i-Khas Daulat-i-Inglishia
Mansur-uz-Zaman Amir-ul-Umara
Maharajadhiraj Raj Rajeshwar Sri Maharaja-i-Rajgan,
BHUPINDRA SINGH MOHINDER BAHADUR,
Yadu Vanshavatans Bhatti Kul Bhushan,
G.C.S.I., G.C.I.E., G.C.V.O., G.B.E., A.D.C., LL.D.,
Maharajadhiraj of Patiala,

whose brilliant leadership
during the most critical period in the history of the Indian States has been of inestimable value to the Princes and whose continued guidance gives assurance for the successful attainment of objects conducive to the greatest wellbeing of the Indian States and the Motherland.

ERRATA

Page	*Line*	
7	9	*for* expansions *read* expansion.
17	20	*for* Mandi States *read* Mandi State.
61	2	*for* Federation *read* Federations.
67	22	*for* this will only serve in a rough manner *read* this will serve to show in a rough manner.
69	20	*for* On March, 1935, *read* On March 31, 1935.
82	16	*for* said *read* sad.
90	13	*for* 3 crores *read* 3.00 crores
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103	8	*for* functions and that *read* functions, that.
111	17	*for* right *read* sight.
114	20	*for* Government of India Bill *read* Government of India Act.
119	31	*for* positions *read* position.
151	34	*for* 149 *read* 152.
176	Footnote †	*for Vide read Ibid.*

PREFACE

Dr. Wajid Khan has written an interesting and opportune book on an aspect of Indian Federal Finance, which has received less than its fair share of attention. The financial problems of the Indian States have many special characteristics, which distinguish them from the financial problems of British India, whether Central or Provincial. Now that the Government of India Act has become law, the practical task of finding solutions for all these problems within a larger unity, will absorb a great part of the energies of Indian politicians and economists in the next few years. In this new era of transition both goodwill and knowledge will be needed in large measure. Dr. Wajid Khan presents both facts and a point of view, which the builders of the New India, the Indian leaders themselves, will do well to examine.

There is, no doubt, much that is controversial in this study. But only through free controversy can political truth be generated and political health maintained. I have had the pleasure of supervising Dr. Wajid Khan's work at the London School of Economics but I do not take responsibility for his opinions on disputed questions. I believe, however, that his book will stimulate thought and discussion, and will contribute to a better understanding of important elements in the Indian financial situation. It is excellently written

and will hold the reader's attention. No other book hitherto published covers quite the same field and wherever Public Finance is studied, and especially Indian Public Finance, this book should find a place in any adequate bibliography.

HUGH DALTON.

29th August, 1935.

AUTHOR'S PREFACE

The scope of this book is described in the Introductory Chapter. So far as I am aware, nothing of a comprehensive character has so far been published setting forth the particular point of view of the Indian States on the financial aspects of an All-India Federation. I originally intended to limit my examination to the scheme of Reforms contained in the White Paper of the 15th March, 1933. But the publication of the Government of India Bill, during the course of my work and its enactment, shortly before the book was sent to the press, has made it possible to analyse the final proposals of His Majesty's Government in the light of the outstanding claims and the special rights and privileges of the Indian States.

In my presentation of the facts, I have relied, as far as possible, on original sources. I have also taken the liberty of utilising my knowledge of the records of the Secretariat of Chamber of Princes, gained while I was acting as Secretary to His Highness the Chancellor of the Chamber of Princes. At a certain point in my enquiries I returned to India in order to collect, on the spot, some essential information which was not available in England. Most of this was pedestrian work and even then I could study only a few typical cases. There is need for a greater collective effort by the States, which number over 200, and whose relations with

the British Government extend over a period of more than a hundred years, if the problem is to be presented in all its bearings. But I hope that in spite of its imperfections, this study will help, to some extent, to clarify the standpoint of the Indian States which has so far been grossly misunderstood in British India and elsewhere.

I am thankful to the efficient staffs of the British Museum and the India Office for their ready help in providing me with books and documents needed for my research, and my deepest debt of gratitude is due to Dr. Hugh Dalton of the London School of Economics for his valuable suggestions and the personal interest he has taken in my work.

A. WAJID KHAN.

The London School of Economics
and Political Science.

9th September, 1935.

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CHAPTER I

INTRODUCTORY

As its title indicates, this book is designed to contribute to the study of a particular aspect of the vast and momentous problems which to-day confront the Rulers of the Indian States.

Patriotism of the Princes.

The events that led to the formation of the idea of an All-India Federation are matters of current history, and one of the chief contributory factors in the formation of that idea was the patriotic offer of the Indian princes to join such a Federation. That offer was made in the belief that their participation was essential to the cause of Indian unity and progress, that it would help in the achievement of the legitimate aspirations of India, and that it would eventually promote the greater happiness and wellbeing of the Indian people. At successive conferences in London extraordinary efforts were made to solve the numerous and complex problems involved. Unanimity was secured on a few points only. But a plan was evolved on which to some extent the final recommendations of His Majesty's Government for Indian Constitutional Reforms were based.

The Indian States have, so far, enjoyed a separate and independent existence. Their entry into an All-India Federation would mean a change in

their relations with British India and the British Government, which might deeply affect, in various ways, their political and economic status. Just how this status is affected would have the greatest influence on the decision of the Rulers of the Indian States to accept or reject the proposed plan of Federation.

Predominance of Economic Considerations in Politics.

The tendency, in modern times, is for economic considerations to predominate in the conduct of affairs of state, and the aim and object of most governmental activities resolves itself principally into the maintenance or improvement of the wellbeing of the people. Before, therefore, the States take a final decision, it is essential that they should fully comprehend the economic and financial implications of Federation, in order to see how the material wellbeing of their peoples would be affected by the proposed plan. The purpose of this book is to examine the economic aspect of the problem, for this is its most important aspect.

Scope of the Work.

This examination falls into the following parts. First, a brief description of the number, extent, resources and economic organisation of the Indian States together with an historical outline of their relations with British India and the British Government. Second, the effect of the past policy of the Government of India upon the economic interests of the Indian States and the extent to which the Indian States have been of political and economic advantage to British India. Third, a brief review of the forces and events which led to the development of the idea of Federation with a short reference to some of the legal and political controversies concerning the States' entry

into Federation. Finally, a study of the essential requirements of the Indian States and of India as a whole, and of some of the fundamental principles which a practicable scheme of Federation should follow in the sphere of finance.

The proposed scheme of Federal Finance will then be examined from the points of view both of practicability and of equity, in order to see how far it is beneficial to the States in particular and to India in general. It is necessary to scrutinize the scheme from the special standpoint of the States and to judge whether it satisfies their main demands and is in conformity with their treaty rights and privileges. This investigation will further require a critical examination of certain stipulations which are apparently disadvantageous to the interests of the Indian States or are contrary to the ascertained wishes of their Rulers, so that we may clearly understand how the States' position would be affected if these stipulations were adopted by them. A comparison of the Federal burdens which the proposed scheme would impose upon the States with those which they should in fairness be required to bear, will lead to some concrete suggestions for amendment.

The complexities of the Indian situation are so great and the range of the subject is so wide, that it has been necessary to confine this study to the central points at issue and to avoid many digressions and elaborations which it would have been interesting to undertake.

CHAPTER II

THE INDIAN STATES AND THEIR PLACE IN THE EMPIRE

Unprecedented Position of the States.

The Native States of India constitute a feature peculiar to India alone. Their position is without parallel in modern history, though instances are available of a somewhat similar state of affairs in comparatively modern times, as, for example, in the cases of pre-Napoleonic Germany and Italy. In the latter countries modern political forces led to the amalgamation of separate units into unified racial, linguistic and territorial groups, whereas in India the same forces acted contrariwise in isolating and perpetuating as separate entities the numerous principalities that comprise two-fifths of the Indian Continent. In considering their unique and unprecedented position in the light of modern political thought, account must be taken of their historical evolution and the general situation of India as a whole.

Centrifugal Tendencies in Indian Body Politic.

India is a country of numerous races, cults and languages, and during the greater part of its history has consisted of a number of large and small principalities whose boundaries were ever changing with the rise and fall in the fortunes of their ruling dynasties. On two occasions only before the

advent of the British has there been a semblance of complete unification—once under Asoka over two thousand years ago and again in the seventeenth century under the Mogul Emperor Aurangzeb, though partial attempts were also made by the Guptas in the fourth century A.D., by Harsha in the seventh and by the Khiljis and Tughlaks in the fourteenth century. In each instance, however, as soon as the process of unification had reached a certain limit, slight disturbances in the established order of things brought the whole structure with surprising rapidity to utter collapse. Throughout the recorded history of India the same process has gone on time after time—an apparently complete cohesion of the various elements comprising the vast territory between the Himalayas and the seas was invariably followed by rapid disintegration into separate and discordant units. Attempts at permanent unification failed for the same reasons as those of the Cæsars, Charlemagne and Napoleon failed to establish the unification of Europe. In India the difficulties were much more numerous and complex.

The Advent of the British a Unifying Factor.

Early in the eighteenth century the passing away of the last Great Mogul had left India in a complete state of anarchy. The Rajput Princes had reasserted their independence, many of the Mogul provincial governors had declared themselves independent sovereigns, the rise of the militant Sikhs and Maharattas had brought in new competitors for supremacy and the whole country from one end to the other was in a hopeless state of turmoil. There was no power in India strong enough to check the disturbing elements—a state of affairs that gave a chance to a politically organised foreign

power to use its opportunities to the best advantage to itself and incidentally to that of India as a whole by bringing about a semblance of unity among the discordant elements. The British entered into alliances with some of the native powers and with their help vanquished common enemies. As British territory extended farther and farther they were brought face to face with new powers and by following a policy alternatively of alliance, penetration and annexation, the British found themselves by the middle of the nineteenth century masters of the greater portion of Indian territory and by far the greatest power in the land.

Extension of British Territory and Influence at the Expense of Allies.

The Native Rulers with whom the British had entered into alliances thenceforth became the "Protected Princes of India," functioning in subordinate co-operation with the British Government. British conquest had now reached the farthest limits of India and subsequently further territorial expansion took place at the expense of territory ruled by these Princes. The rich domain of the King of Oudh, one of the staunchest allies of the British in India, was annexed for alleged misrule. Nagpur and Satara were annexed under the policy of lapse, a policy under which a protected State lapsed to the British Government in default of a direct heir to the throne. Thus by 1856 British India had practically assumed its present proportions.

Unification Carried too Far.

At that time an intelligent student of history might well have imagined that the process of unification had very nearly reached a point where the slightest disturbance in the established order of things would bring about a crisis. The inevitable crisis, however,

did come a year later, but the Empire survived the shock. This was first and foremost due to the fact that the process of unification had not yet gone too far—a large portion of India was still under native rule. The British with characteristic foresight were quick to grasp the situation; the policy of "lapse" was for ever abandoned, and the Crown pledged itself to protect and uphold the Princely dynasties of India in perpetuity. Had the policy of expansions gone on unchecked there would perhaps have been a different story to tell.

Value of the States as Stabilising Factor.

The importance of the Indian States in the Commonwealth cannot be exaggerated. As allies they were indispensable during the first stage of British dominion in India, and in the great crisis of 1857 were responsible for re-establishing British authority in different parts of the country. From 1857 onwards they provided a stabilising factor in the ever changing political situation in India, and in more ways than one materially helped in bringing about an era of peace and order that has been such a distinctive feature of the British rule in India.

States as Custodians of Indian Culture.

Among the forces that have led towards the disturbance of world peace one of the most important has been the clash of cultures. The effort of one people to impose their culture on another and the resistance on the part of the latter have caused many upheavals in history. The average Indian is immensely proud of his culture and traditions, and has watched with uneasiness alien institutions grow up under the auspices of an alien though benign Government and gain adherents. He does not, however, despair as he is aware that the culture so dear to his heart is well preserved in

the Native States. As at present constituted the States represent almost all the different cultures and traditions that have evolved at one time or another during the chequered history of India. The ancient Rajput dynasties, whose ancestry may be traced back for several thousand years, are the embodiment of orthodox Hindu culture and remind one of the golden era of Hindu civilisation. The great state of Hyderabad gives one an impression of the glories of the Mogul Empire. The distinctive customs of the disciples of the Gurus are preserved and respected in the Sikh states of the Punjab and the distantly situated states of Gwalior, Indore, Baroda and Kolhapur are reminiscent of the once all powerful Maharatta Confederacy. In the Central Provinces there still survive a few chieftains whose ancestors owned the greater part of the country before the Aryans first set foot in India long before the dawn of history.

Distinctive Administration of States.

All these States are autonomous principalities, their territory is not British territory and their subjects are not British subjects. They are governed by their hereditary rulers under their own laws and time honoured customs. It is true that many of the States have inaugurated a modernised form of administration, organised on the lines of British Indian Administration, but even in the most modernised of these there is a subtle distinction marking it as essentially indigenous, a distinction that is the pride of their peoples and a state of affairs that gives the greatest satisfaction to their subjects.

Their Close Affinity with British India.

But although the States are politically autonomous entities they are in a way part and parcel of a co-ordinated whole. Not only are they united in common

allegiance to the King-Emperor, but their interests are so much intermingled with British India that it would be absurd to leave them out of consideration in any scheme of Imperial adjustment. Many States have no well-defined physical boundaries, and recent improvements in communications have further reduced their isolation. A century of close co-operation with British India has resulted in the creation of a variety of interests that are dependent on one another. Thus any oscillation in the political or economic equilibrium in British India does not fail to have its repercussions in the Native States. In weal or woe both are partners.

Their Relations with British Government.

The political relations of the States with the British Government are defined by their respective treaties, engagements and sanads.* Most of these treaties emphatically lay down that the Rulers shall remain absolute in their own territories and that their internal sovereignty will in no manner be encroached upon. The extent of subordination is, in most cases, limited to external relations and the military activity of the States. The interests of the British Government are watched by Political Officers who usually reside in the States and who act as liaison officers between the States and the Government of India.

Infringement of their Treaty Rights.

By the Queen's proclamation of 1858 the Princes were solemnly reassured of their independence, but the British Government in India could not conquer its traditional habit of treating the States as of little account. An insidious penetration still went on which in practice infringed their treaty rights and privileges very often in deference to the imperious

* For specimen Treaties, Sanads and Engagements see Appendix A.

political and economic needs of British India. In course of time there grew up the practice of giving so called "advice" to the Princes and instances abound in which Political Officers succeeded in securing the cession of valuable rights to outside bodies even to the financial loss of the State concerned. The States invariably protested, but it was not possible in their state of compulsory isolation to make their protests effective. On the other hand as authority for such encroachments could not be derived from existing treaties an undefined formula of Paramountcy was propounded. In the words of Lord Curzon: "The sovereignty of the Crown is everywhere unchallenged. It has itself laid down the limitations of its own prerogative." This was a claim not merely to paramountcy but to complete sovereignty over the Indian States, and an assertion "that the prerogative of the Crown reached out to any length it chose, entitling it as of right to impose on every State what control it thought fit, although in its forbearance it had graciously elected to submit to certain self imposed limitations." *

Misuse of the Right of Paramountcy.

It is not our intention, however, to be drawn into the controversy that has for some time been raging round this particular question. It is admitted that the privilege has in many cases been put to very useful purpose. But there is one aspect of the question that has real bearing on our problem. So long as the power is utilised for attainment of Imperial aims, as for example, security and defence, it can be very well appreciated, but when it is made use of to serve interests that can hardly be called Imperial the position becomes indefensible. As

* *Vide* "The British Crown and the Indian States," Part I.

mentioned above, instances are not wanting in which States have been forced to cede rights for the benefit of British India or other external interests under the pretext of the requirements of the paramount power. For the task in hand this aspect is so important that we will have to discuss it at some detail later.

Geographical Position of the States.

As a first step towards the realisation of the importance of the Indian States in the Commonwealth it is essential to comprehend the position which the States occupy in the geography of India. A glance at the map will show in what an extraordinary manner their territories lie across the whole country. It would be evident that it is impossible to cross India from north to south or from east to west without traversing State territory for hundreds of miles. They are so situated that the main arteries of communications so vital for the safety and wellbeing of the country run principally through their territory. At the same time these States present among themselves such a remarkable diversity of size, race, culture, language, climate and physical features that each may be treated as a class by itself. Some States like Hyderabad, Kashmir, Travancore and Bahawalpur have well defined physical boundaries; most have not. Many consist of compact blocks of territories while others are divided into separate pieces each surrounded by British or other State territory, and as in the case of certain States remote from one another by several hundred miles. For example, Patiala, the premier State of the Punjab, is divided into at least six separate blocks of territory and includes within its dominion parts of the snowy Himalayas, the sub-tropical jungles of the Tarai, the fertile alluvial plains of the Malwa and

the parched arid tracts of Rajputana, thus representing within its area of 6,000 sq. miles only, all the different climates and physical features found in the Indian Empire.

Possibilities of Territorial Readjustment. With regard to such States the question naturally arises whether it would be possible to make British Indian and State territories more compact by territorial readjustments, which arrangement, if successfully carried out, is sure to bring about economies of administration, to facilitate trade and benefit the people in many other respects. With the main arteries of communication under British Indian control the isolated pieces of British Indian territory are not so badly effected as those belonging to the States. Of course, any such adjustment depends on the agreement of the Princes and the peoples concerned. Evidently the obstacles on the British Indian side are not so great as under the modern conditions of transport and communication there no longer exist the strategical grounds on which the British occupied land either to form a wedge into the then hostile native territory or to isolate the native States from one another by narrow strips of British territory in order to prevent a coalition of States against the British.

Statistics. On the whole the Indian States along with the North-West Frontier Agencies and tribal areas cover an area of 712,508 sq. miles and hold a population of over 81 millions; in other words they have an aggregate area of more than two-fifth and a population of about one-fourth of the whole of the Indian Empire less Burma. The density of population for the States is thus 113 to the square mile as compared with 297 for British India excluding Burma and 195 for the whole of

the Indian Empire. This disparity in the density of population is due principally to two facts—firstly, the States occupy the less fertile tracts as compared with British India, the richer States having been annexed to British India a long time ago, and secondly, the States, due to their limited resources and, as we shall see later, also because of the attitude of the Government of India, did not have the opportunity to develop their resources to their fullest extent. The Native States of India may, however, be grouped into three main classes according to their position and status.*

Sovereign States.

(1) In the first group would fall States that are geographically part of India proper and whose Rulers exercise sovereign powers over their territories, or as in the case of smaller States sovereign powers, with certain limitations imposed by the British Government. These number 235 in all and cover an area of 683,246 sq. miles, with an aggregate population of over 78 millions, i.e. about 96 per cent. of the whole of Indian India both in area and population. They vary in size and population from Hyderabad which has a greater population than that of Turkey or Jugoslavia and Kashmir, which is almost the size of Great Britain, to petty States like Bijna and Banka-Pahari in Central India which have an area of 8 and 5 sq. miles respectively and can count no more than 1,500 inhabitants each. The Rulers of 109 of these States are accorded salutes of guns outside their territories and with the exception of Kalat are members of the Chamber of Princes in their own right. The remaining 126 are represented in the Chamber of Princes by twelve Princes elected from among themselves. In the case of

* For statistics, *vide* Appendix C.

many of these the Paramount Power exercises, to a certain extent, powers of control with regard to civil and criminal jurisdiction through its Political Officers. The ostensible reason for such interference in the internal affairs of independent States is that the resources of these States are too limited to maintain an efficient judiciary and the Paramount Power in the interests of justice has appropriated to itself certain functions which would otherwise have been exercised by the States themselves. If the principle of non-interference is strictly adhered to an alternative may be found in allowing the smaller States to form themselves in groups and maintain a joint judiciary for each group. The important State of Kalat, Baluchistan, with its feudatories, Las Bela and Kharan, though strictly speaking not belonging to India proper, has had such a long and close association with the Empire that it would be only proper to include it in this main group. It is this group of States that really comprises Indian India and with which we are here principally concerned.

Estates and Jagirs. (2) Then there is a large number of Estates and Jagirs classed with Native States numbering nominally 327. They cover an area of 13,120 sq. miles, and claim 812,000 inhabitants. Many of these are subdivided into a number of smaller heritages so that the actual number of the estates is in excess of 800. This gives an average of about 15 sq. miles in area and 1,000 in population for each estate. The estates are held by their respective hereditary chieftains who enjoy very limited powers of rulership. Some of these estates are fairly large in extent and, but for the distinction laid down by the Government of India, might have been classed with other States having

direct or indirect representation in the Chamber of Princes. The estate of Wao, in Western India, for example, has an area of 537 sq. miles and a population of 22,000. On the other hand the large majority of them are petty holdings comprising sometimes less than a square mile and often shared by a number of persons. Most of these stand in feudatory relationship with the bigger States, which relationship is perpetuated in the form of payment of tributes or the acknowledgment of sovereignty in ceremonial. There is a very strong case for the amalgamation of these petty holdings if only for judicial and fiscal purposes, with their suzeraine States.

(3) The North-West Frontier States and Tribal areas cover an area of 22,838 sq. miles and have a population of $2\frac{1}{4}$ million. These along with Bhutan do not form part of India proper and because of their peculiar relations with the Government of India do not come within our purview. It is hoped, however, that with the improvement of conditions on the Indian frontiers, these States will be enabled to become more useful and integral parts of the Indian Empire.

CHAPTER III

THE NATURAL RESOURCES AND ECONOMIC ORGANISATION OF THE INDIAN STATES

Agricultural Produce. The Indian States, with regard to their natural resources, present the same diversity as is evident in other respects. Agricultural produce is fairly well distributed in common with the rest of India. The usual Indian crops of wheat, rice, millets and pulses and oil seeds are grown in most States. Kashmir produces large quantities of fine silk and wool ; Hyderabad, the Gujarat States and some of the Central Indian States are large exporters of cotton ; tea and coffee are grown in Mysore and Travancore, while the last mentioned State is the chief exporter of valuable spices, rubber and coir. More than one-fifth of the area of the Indian States is covered by valuable forests. Most of them have inaugurated efficient systems of forest administration and possess in their forests a property of constantly increasing value.

Minerals. The mineral wealth of the States, too, is immense, though it has not yet been fully exploited. Large quantities of coal are being produced from the mines in Orissa States, Hyderabad, Rewa and several others, but their production is less than 10 per cent. of that of British India. The output of

gold from the Kolar mines in Mysore is worth about £2,000,000 annually. There are extensive deposits of natural salt in Baluchistan and Rajputana and other minerals, viz. manganese, mica, iron ore, potash and various types of building material are being worked to some extent in different States. Although collective figures of the mineral output of the States with regard to all minerals are not available, it may safely be asserted that the mineral wealth of the States is fairly in proportion with their extent and population to that of British India.

Water Power.

In addition to this the hydro-electric power resources of the States are immense. The snow-fed rivers of Kashmir and other Himalayan States are capable of almost unlimited development in this direction. In fact, the Jehlum is now supplying all the power needed in the textile factories at Srinagar and the great works in the Mandi States, recently completed, are expected to supply power to an area of over 30,000 sq. miles. The hydro-electric possibilities of Mysore, Travancore and a number of other States are also immense.

States Mainly Agricultural.

The majority of the people of the Indian States, as is the case with the rest of India, live on agriculture. According to the last census about 67 per cent. of the country's workers are engaged in the exploitation of animals and vegetation while only 10 per cent. are engaged in industry. But the States are on the whole less industrialised than British India so that the percentage of workers employed in agricultural pursuits is accordingly higher, and of those engaged in industries lower than that for British India.

Irrigation. Agriculture in the States is largely dependent on the rainfall, the characteristics of which in the shape of unequal territorial and seasonal distribution and its liability to failure or serious deficiency are shared in common with the rest of India. It was in order to combat this menace that the wonderful irrigation systems of India were constructed. The States in the Indo-Gangetic plain, like Patiala, Bahawalpur and Rampur, derive their unfailing supply of water from the Himalayan rivers, while in the plateaux area the chief sources of supply are artificial reservoirs and wells. There has been of recent years great activity in the States for the development of irrigation. In the State of Bahawalpur alone, over 2 million acres of desert land promise to become fertile fields as a result of the diverting of the waters of the Sutlaj.

Railways in States. All the States now come within the area accessible to international trade. Most of the States have direct railway connections with the major Indian ports, and some of the Maritime States have developed their own ports. Many have their own railways, some having them under their own management, while others run them under working agreements with the larger Indian railway systems. The total route mileage of railways in the Indian Empire on March 31, 1933, was 42,960.98 miles, representing a capital outlay of Rs. 877.25 crores.* Of this the States owned 6,909.77 miles, estimated to have cost Rs. 51.27 crores.† It is evident that, comparatively speaking, the States are not so well served by railways as

* According to the Indian system of numeration a crore is 10,000,000 and a lakh 100,000. A crore of rupees at the rate of 1s. 6d. to the rupee is equivalent to £750,000 and a lakh of rupees to £7,500.

† *Vide* Appendix D.

British India. There is in British India one mile of railway to every 30 sq. miles of territory, and 7,531 of population, while in the States as a whole the proportion is 103 sq. miles and 11,767 of population respectively. This disproportion is in the first place due to the inclusion of vast areas such as those of Kashmir and Baluchistan where the configuration of land or the sparsity of population make the construction of railways impractical and unprofitable and also because the policy followed by the Government of India, as we shall see later, was not very encouraging to the construction and working of the railways by Indian States.

Post and Telegraph Facilities. Practically all the States are now connected with the Indian Telegraph system. The Postal systems of the States are well developed. Certain States such as Hyderabad and Patiala have their own Postal organisations, while others have their Postal departments worked by the Indian Post and Telegraph Department under agreements entered into from time to time on varying terms. The air mail systems are making fair headway and it is hoped that before long most of the Indian States will come within the sphere of the regular air services.

Roads. Before the railway system of India was fully developed, there were excellent roads connecting the States with different parts of the country. With the advent of railways these were allowed to fall into disrepair. Since 1920, however, the introduction of motor transport has given a fresh impetus to the construction and maintenance of metalled roads, and great efforts have been made and are being made towards the improvement of roads for wheeled and motor traffic in all the States.

Textile Industry. Apart from agriculture and mining the only other industries of importance in the States are the textile and transport industries. During the year 1932-33 there were produced in the Indian States nearly 1½ million bales (of 400 lbs. of cleaned cotton each) as compared to 3 million in British India, while the quantity of yarn spun on all counts in the same year was over 130 million lbs. as compared to over 885 million lbs. of British India.* Thus though the States produce one-third of the total Indian cotton their share in its manufacture is only one-eighth. Apart from this, indigenous spinning and weaving of cotton as a cottage industry also goes on to a certain extent. This industry provides goods of great artistic value to a limited market. Of the 60 million lbs. of wool produced annually in India at least 12 million lbs. are produced in the States. There are four woollen mills in Mysore which

* *Production of cotton in Indian States in* 1932-33.

	Area in 1,000 *acres.*	*Bales of* 400 *lbs. of cleaned cotton (in thousands).*
Hyderabad	3,602	534
Central India	3,007	135
Baroda	722	144
Gwalior	597	76
Rajputana	419	57
Mysore	88	10
Bombay States	1,644	364
Punjab States	300	90
Madras States	197	41
United Povs. States	10	3
	8,586	1,454
British India	13,972	3,062
	22,558	4,516

Quantity of yarn (in pounds) of all counts spun in 1932-33.

Indian States (including Pondicherry)	130,649,685
British India	885,768,724
Total	1,016,418,409

produced woollen goods of over 2,700,000 lbs. in weight in 1930, the value being nearly Rs. 18 lakhs. Kashmir produces some of the finest wool in India and exports large quantities of exquisite shawls which are world famous. With regard to the silk industry, Kashmir and Mysore are the only two States where the industry is carried on on a considerable scale. In the former State sericulture has been fostered on approved European principles with Italian reeling machinery, seed being annually imported on a large scale. It is noteworthy that the silk filature in Srinagar, Kashmir, is the largest of its kind in the world. In Mysore the growing of mulberry and the rearing of the insect is done according to the Japanese methods, and the products of the Mysore State are exported to foreign countries from Madras.

Banking in States. Banking facilities in Indian States are, on the whole, not so well developed as in British India. Most of the larger States have modern banking systems, but the greater part of the business is in the hands of private bankers and shroffs (petty moneylenders), who incidentally are also of great assistance to the banks. It is impossible under the present conditions prevalent in India for the banks to give accommodation to the vast business community. The shroffs advance money to small tradesmen after careful enquiries, and when they can no longer meet demands out of their own money they ask the assistance of the banks. The shroffs do this by taking a number of the bills they hold to the banks for discount under their endorsements and the banks accept such bills to the extent determined in each case by the standing of the shroff and the strength of the drawers. The rates charged by the shroffs are

usually based on the rate on which they in turn can discount bills with the banks and vary according to the strength of the borrower and the season of the year. Generally speaking a rate of $1\frac{1}{2}$ per cent. above the bank rate is considered fair. In rural areas, unfortunately, the rate is often much higher.

Co-operative Movement.

The primary aim of the co-operative movement in India was, therefore, to free the peasant from the clutches of the village moneylender and the activities of co-operative societies have so far been restricted to the raising of funds by deposits from members and loans from non-members, Government and other bodies, and to distributing the money so obtained as loans to their members. In spite of several weaknesses in the movement it has in many ways improved the condition of the cultivator. With regard to co-operative credit societies, Bhopal and Gwalior, compared to the total population, lead in the matter and the large States of Hyderabad, Kashmir, Mysore and Baroda have also made considerable progress. Travancore has a membership of 43.6 per thousand inhabitants. The working capital of the societies varies from State to State—Indore comes first with 71 annas per head of population, and Bhopal follows closely with 57.* With regard to non-credit agricultural societies, whose aims are the improvement of agricultural conditions in different ways, a good deal of progress has been made by Mysore and Baroda and the movement is extending to other States. Insurance in India is almost in its infancy, and though life assurance has made some progress, trade and labour

* An anna is equivalent to $1\frac{1}{8}$d. of English money at the exchange rate of 1s. 6d. to the rupee.

insurance is practically unknown in many of the States.

Agrarian Systems. Most of the States now have agricultural departments organised on the lines of those in British Indian Provinces, and their object is to improve agricultural conditions by research and experimentation, demonstration, propaganda and the distribution and sale of suitable seed and implements. The system of land tenure prevalent in almost all the native States is Ryotwari, in which each individual occupant holds land directly from the Government, the head of the village being responsible for payment of land revenue on the whole village area. The State Government enters into a separate agreement with every single occupant and the basis of assessment on all classes of holdings, as at present obtainable in the States, can be favourably compared with conditions in British India. In many States extensive lands are held by jagirdars or hereditary barons, the State governments having relinquished their right to collect land revenue in favour of the jagirdars. Nevertheless the State governments exercise, in the case of jagirs, powers which have as their principal aim the protection of the tenant against possible oppression by the jagirdar.

Labour Problems. The labour problem as existing in the industrialised centres of British India is non-existent in the Indian States. There is no settled permanent labour force and whatever there is, is derived from the village. This force is always shifting and seldom breaks its connections with the village. But although the labour problem in its acute form does not exist, the States have kept themselves in line with modern governments in

promulgating labour legislations from time to time. They have ratified most of the international Labour Conventions emanating from Geneva. It may be noted that the Indian States have been represented at the meetings of the League of Nations on several occasions by one of the Princes in person.

CHAPTER IV

COST OF IMPERIAL BURDENS

States' Contributions.

The contributions which the Indian States are at present making to the revenues of the Government of India fall in two categories.

(1) Obligations that are plainly defined by their treaties, engagements and sanads, and

(2) Contributions not authorised by their treaties, engagements and sanads, mainly of an indirect character, appropriated by the Government of India.

Under (1) fall cash contributions imposed or negotiated by the British Government *

(*a*) in acknowledgment of suzerainty, including obligations to aid and protect on the one side, and to give subordinate co-operation on the other ;

(*b*) in commutation of obligations for the provision of a " state contingent force " or other form of military assistance ;

(*c*) for maintenance of a British subsidiary force ;

(*d*) fixed on the creation or restoration of a State, or on a regrant or increase of territory (including annual payments for grants of land on perpetual tenure and for equalisation of the value of exchanged territory) ;

* As classified by The Indian States Enquiry Committee (Financial) 1932.

(*e*) for special or local purpose, such as the maintenance of local corps, police, etc.; and also contributions originally paid to another State, but subsequently acquired by the British Government:

(*f*) by conquest or lapse of the original recipient;

(*g*) by the assignment from the original recipient.

These cash contributions amount to Rs. 74 lakhs annually.

Value of Ceded Territories.

In addition to the above contributions, five States (Hyderabad, Baroda, Gwalior, Indore and Sangli) have ceded territories to the Crown in return for specific military guarantees. The total revenues of these territories according to the computation of the Indian States Enquiry Committee (1932) amounted for the year 1931-32 to over Rs. 3.79 crores,* made up as follows:

Hyderabad . . .	Rs. 2,45,19,600
Baroda . . .	47,91,200
Gwalior . . .	81,80,800
Indore . . .	1,11,214
Sangli . . .	3,40,200
	3,79,43,014

(2) The second category of indirect and uncovenanted contributions to the revenues of the Government of India is important. British India has been collecting from the Indian States subjects, taxes, to which it has no justification either in fact or in law, and it is interesting to examine how much the States contribute to the revenues of British India in this manner.

* *Vide* Report of the Indian States Enquiry Committee (Financial) 1932, Chapter IV.

Sea Customs. The first among these contributions is the customs revenue levied on goods consumed in the States. To estimate the amount contributed under this head by the Indian States it is necessary to find out the quantity of dutiable goods imported by or exported to the States through the British Indian ports. The means of obtaining accurate figures for this purpose are lacking, and we are forced to base our estimates on generalisation. The requirements of States with regard to foreign manufactured articles are similar to those of British India. The improvement in communications, transport and credit facilities in recent years throughout the Indian Empire have helped to create a uniform want for foreign manufactured goods and we may assume that the consumption of dutiable goods in the States is nearly the same per head of population as that in British India. With regard to exports, too, the States present the same variety of produce as British India, and the surplus available for export from the States per head of population may be assumed to be the same as that for British India.

States Share in Sea Customs. In calculating the customs contribution of States on a population basis we have to take into consideration several other factors. The States of Kathiawar with a population of approximately 3 millions collect their own sea customs, and this figure has to be subtracted from the total population of the States. Kashmir receives a rebate on goods imported in bond (amounting on the average to Rs. 25,00,000 annually), but the figures are included in Indian Customs department account. In the case of the maritime States of Travancore and Cochin also,

their ports are controlled by the Indian Customs. We need not, therefore, subtract the populations of Kashmir, Travancore and Cochin from our calculations. The total Indian customs revenue being nearly Rs. 52 crores * and the population of the Indian States minus that of Kathiawar States 78 million, the amount of customs revenue paid by the entire Indian States with the exception of Kathiawar on the basis of population would be $\frac{78 \times 52}{349}$ or 11.65 crores, which amount is entirely appropriated to the revenues of the Indian Government.

Salt. The revenue of the Government of India from the taxation of salt is raised by means of customs duties on imported salt; by an excise duty on salt manufactured and mined in different localities, and by the sale of salt produced in Government works. The Government of India thus holds the monopoly of salt, and the people of the States make a contribution to British Indian revenues for every pound of salt that they buy. There is no reason to suppose that the States consume less than their proportionate share of salt as it is a commodity which the poorest must buy.

During the last three years the salt revenue has averaged 9.16 crores, and on the aforementioned formula a sum of about 2.08 may be assumed to be derived from the States.† From this it is necessary to deduct the compensation which is

* Customs revenue in 1932–33 amounted to 51·95 crores. Under the budget estimates for 1935–36 it was expected to yield 51·84 crores.

† The salt revenue during the previous 3 years was as follows: 1932–33, 10·07; 1933–34, 8·86; 1934–35, 8·55.

The population of the States represents 22·7 of the total population of the Indian Empire and their contribution towards salt tax should bear the same proportion to the total salt revenue of the Government of India.

paid to certain States to the amount of Rs. 46 lakhs.* The net burden on the States under this item is thus 1.62 crores.

Disadvantages of Present Arrangements.

Besides this burden of tax there are various disadvantages to the States under the existing arrangements. The whole control of salt revenue is taken out of their hands and they are unable to influence the policy of the Government in regard to the price which it chooses to charge for salt. An illustration of this is afforded by the fact that pressure was brought to bear upon the States in whose territory salt was produced, and which were allowed a certain quantity of salt for their own consumption, to raise the price of salt to their own peoples at the time when an increase in the rates of salt tax happened to suit the needs of the British Indian Budget.

The agreements under which the States agreed to refrain from the production of salt or by which they put their resources under the control of the Government of India provided for certain forms of compensation. The terms applied to different States varied considerably. Some received compensation for transit duties, some received compensation for the price of salt consumed by their subjects, some received no compensation at all. Some were allowed to produce salt on condition it was not exported and some were obliged to give up production altogether. In every case the interests of the excise system of the Government of India were primarily considered, and in many cases compensation was inadequate and was fixed

* Under various agreements with the States the Government of India pays to certain states compensation for the relinquishment of their rights to levy salt tax within their territories, the whole of which amounts to an aggregate sum of Rs. 46 lakhs.

in an arbitrary way. The result of the arrangement is that not only do the States suffer these losses and their exchequers become deprived of a source of revenue, but a part of their natural wealth remains undeveloped and their peoples are often compelled to pay an unduly high price for salt transported from a distance or even imported from abroad, while a nearer supply remains unused.

Currency and Mint. From *Currency and Mint* the Government derives a large revenue. The minting of rupees and small coin and the printing of notes each yield a surplus measured by the difference in the nominal value of the currency and the cost of production. This profit goes to form a reserve and is invested in profit yielding securities. The right of coinage is one of the dearest privileges of sovereignty and it was with great reluctance that various Princes gave up their mints. Hyderabad is the only State to-day that has its own paper and metal currency. Udaipur and Jaipur coin their own rupees to a limited extent and several others their own copper coins; all other States having closed their mints and adopted British Indian currency. But although a uniform currency greatly facilitated trade it had its disadvantages also. Not only did the States lose a source of revenue through mints, but also all power to control or alter the monetary policy of the Government of India, however detrimental it may be for the time being, to the best interests of the States. Moreover, the States are clearly entitled to a share in the Gold Standard and the Paper Currency Reserves of the Government of India in proportion to their consumption of the metal and paper currency, but this claim has never been recognised.

States' Share in Currency Profits. To assess their share it is not necessary to allow for those States which provide part of their own currency, for it is also necessary to allow for the fact that the use of silver is likely to be greater amongst the relatively poor and backward peoples of the States and that the velocity of circulation of money is likely to be lower among them than among the peoples of British India. In Hyderabad and one or two other States that have their own subsidiary currency, the use of State currency is inconsiderable as side by side with their currency, British Indian currency is coming more and more in use. In spite, therefore, of some States having their own currency we may conclude that the States make use of silver and token money to a greater extent than the rest of India. The average net revenue under this head for the three years 1924-25 to 1927-28 was Rs. 3.54 crores, and assuming their share at the rate of 22.7 per cent., their contribution would be Rs. 80.16 lakhs. And allowing for the slow velocity of money in the States we may say that they contribute roughly Rs. 88 lakhs towards the profits from currency and mint. Actually these profits vary from year to year and our estimate provides only a rough idea of the States' contribution.

Contribution towards British Indian Income Tax. The people of the States make a further contribution to the revenues of the Government of India through *income tax*. This contribution results from the fact that the British Indian income tax, like that of Great Britain, works upon the double principle of taxing income which is derived from a source within its boundaries, and also income

enjoyed by any person and resident within its boundaries. This method of taxation has been admitted to be unjustifiable, for if two countries both use it, a person who lives in the one and draws income from the other suffers double taxation. It imposes an unfair burden on individuals and discourages movements of capital between British India and the States. In the case of a State subject deriving his income from investments in British India the system reduces his power to pay States taxes and thus, in effect, results in real loss to the exchequers of States. It is impossible to estimate the amount of contribution under this head, in the absence of detailed information, but its burden has been felt for a long time.

The States subjects also contribute towards the British Indian Revenues through excise or taxes on motor spirit, opium, liquors and narcotic drugs. Like income tax, it is again difficult to assess the amount thus contributed. The indirect and uncovenanted contribution of States towards the revenues of Government of India are thus :

Sea customs . . .	11.65	crores
Salt	1.62	,,
Currency and mint . .	.88	,,
Total .	14.15	,,

apart from what the States subjects pay by way of income tax and taxes of the nature of excise duties. These figures are only tentative, but this fact does not affect our argument. The fact that the subjects of Indian States do contribute to British Indian revenues under these heads is indisputable and the Princes are justified in their demand for necessary adjustments. It is also important to remember in this connection, that the imposition

Burden on the States.

of this taxation lays upon the States a real burden, far greater than can be measured by the actual sum which their peoples sacrifice. In the first place it must react on their whole fiscal system. The imposition of one set of taxes reduces the capacity of the people to bear other taxes and the total sacrifice borne by all the members of the community depends upon the manner in which purchasing power is retransferred by the Government to the members of the community. It follows that the yield of the States own taxes is diminished by this imposition, and the burden upon their peoples is all the greater, because none of the proceeds are spent within the States.

Injuries re *Sea Customs.*

The imposition of sea customs for the benefit of British Indian revenues throws the whole taxation system of the States into confusion. Goods which arrive at their frontiers, if imported from overseas, will have paid one custom duty, in many cases a considerable one, and all goods which pay a duty at the frontiers of States have, in effect, to bear a double tax. The British Indian tariff raises the price not only of goods actually imported, but of all goods of the same class, and this is unfortunate for consumers in States, as well as for States' Governments due to the fact that the price of goods enhanced by sea customs is apt to check the demand for them within the States, besides depriving the State of revenue it would otherwise have been able to collect. The States thus find it very difficult to enhance their revenues in years of deficit, and as the cost of modern administration is high, they have to manage as best they can by curtailing expenditure on State activities, sometimes of an important nature.

CHAPTER V

HOW THE INTERESTS OF STATES HAVE IN THE PAST BEEN SUBORDINATED TO THOSE OF BRITISH INDIA

States were Slower in Adopting Modern Changes.

The Indian States are, in general, the less accessible and less fertile parts of the Indian continent. The comparative isolation and the relative sparseness of population have made the States slower than British India to be affected by the changed economic conditions which have resulted from British occupation. The continuation of their political forms has helped also the survival of their earlier economic organisations. While British India was being slowly industrialised, the States for a long time did not feel the urge to make industrialisation their aim. Their economic organisation was based on village economy, where all workers dealt in terms of real goods, had their markets at their own door, and manufactured products, in any form, covered a very small proportion of family budget. Under these conditions the rulers of the States were not unwise in adopting a policy of *laissez-faire*, neither particularly encouraging industrial development nor expressly discouraging them.*

* *Vide* " The British Crown and the India States," Part II, Ch. I.

Setbacks from British India.

But gradually things were changing all round them. The village economy had given place to an elaborate money economy. Old village industries were going down before machine-made goods. The industrialisation of British India had brought about a complete disorganisation of the existing economic conditions in the States, and situated as they were, they could not hope to be self-sufficient. The stage, however, arrived when the States began seriously to think of industrial reorganisation to cope with the situation. But in this they met with setbacks from British Indian side. They found that such railways as were built were mainly constructed from the ports to the fertlie areas of British India. The Government of India imposed certain restrictions upon them so that they could not develop their resources uninterruptedly to their fullest extent. An examination of these restrictions would be of interest in this connection.

Railway Policy.

A glance at the map of India will show that the railway system as it exists to-day in India could never have been produced if the Government of India and every separate State had each pursued a policy of its own. It was necessary to have some sort of unification both in planning and in the control of Indian railways, but this unification was in many cases achieved at the expense of the States and their interests were often brushed aside in attaining it.

The railway system of India was originally financed with the greatest difficulty, and the Government of India had at first to resort to the expensive method of guaranteeing interest on capital invested by the Railway Companies. Later,

the Government of India determined to construct railways for itself and sought the aid of Indian States. Hyderabad and Indore were the first to provide capital for construction of railways in their territory in 1870, and their example was quickly followed by other States. At present there are some 36 lines owned or guaranteed by the States. The majority of these are worked by the great Railway Companies and fit into the general railway system of India. Certain lines, however, are worked by the States. Hyderabad, Gwalior, Jodhpur, Bikanir and several Kathiawar States administer lines, but these for the most part are light railways and do not form an integral part of the main system. Lines owned and administered by the Indian States have a total route mileage of 4,958 miles, while the lines owned by States but worked by the main line have a route mileage of 1,912 miles.* In addition to this there are many miles of lines in which the States have no financial interest, but which cross their territory and were built upon land ceded by the States.

States Surrendered Rights Without Adequate Compensation.

'One of the inducements which the Government of India offered the railway companies to build lines in British India was the free grant of land required for railways. Whenever a line was to be built through State territory, the State was persuaded to make a similar grant of land.' This grant was made equally to private companies working for profit and to the Government of India for its State owned lines. The States had to compensate land holders from State funds, and some of them also provided building material free of cost, without deriving any direct benefit

* *Vide* Appendix D.

from the profits of the railways. In order to facilitate the working of railways and avoid administrative difficulties the States were induced to surrender civil and criminal jurisdiction over railway land within their territories, and in course of time these areas came to be treated practically as parts of British India. The Government of India began to exploit the land for other purposes than that for which it was granted.

Further Encroachments on their Rights.

'Railway premises were made to yield revenue in various ways ; they were used for post offices and for various other commercial undertakings.' Profits on grass and wood were appropriated and plots of land leased for commercial purposes and rent received by the railway authority. Excisable articles like liquor and tobacco were sold in railway areas involving loss to the States. Income arising within railway areas was made subject to the Government of India income tax and could not be touched by such States as had income tax of their own. The Indian Stamp Act was applied in railway areas and by this means also revenue was extracted from persons living in State territory. These conditions still continue and are unfair to the States. There is no justification in carrying on profit making enterprises from the benefit of which the real owners of the land are excluded. Moreover these enterprises often compete with similar enterprises in the States so that both private traders and the revenues of States are made to suffer.

'The co-operation of the States with the Government of India in their railway policy has involved them in a loss in other ways also. The States have been induced to fit into the general schemes,

which were not the most suitable in gauge alignment or equipment to the needs of the States which financed them.' Over and above this they have been prevented from opening new lines to meet the need of their peoples on account of the vested interests of lines owned or guaranteed by the Government of India.

Examples of the restriction imposed upon railway building in States are numerous. At a time when the States were reluctant to invest money in modern enterprises they were constantly urged by the Government of India to build railways, but now that they have learned their value and are keen to develop their resources, they are constantly impeded by the claims of vested interests. Railway companies working lines owned by States sometimes manipulate rates in such a way that as much traffic as possible is run over lines from which they receive the whole profit and as little as possible over lines from which part of the profit must be handed over to the States. Certain States find that their industrial enterprises receive less favourable treatment from railway companies than private enterprises in British India. For instance the development of the Umaria coalfields in Rewa State received a serious setback by the fact that coal from mines in the Central Provinces was granted preferential treatment in the matter of railway rates.

Policy re *Telegraphs.*

The dealings of the Government of India with the States in the matter of posts, telegraphs and telephones are in general characterised by the imposition of hampering restrictions upon the internal administration of States. Until recently the Government of India retained in its own hands

the complete control of every telegraph line and even objected to the installation of a telephone system in a State without its sanction, appropriating for itself all the earnings of the telegraph system. Since the States were permitted to construct their own telegraph and telephone lines, the Government of India have refused to connect these lines with their own system or to apply reciprocity in interchange of traffic, as in the case of posts. On their side, the Government of India have taken their telegraph lines through the States, and opened and closed offices at pleasure, as though entitled as of right to do so. In many cases the construction of telegraph has resulted in the introduction of British Indian jurisdiction. In Kashmir the Government of India took over the telegraph system installed by the State without adequate compensation. With regard to telegraph offices worked on profit sharing principle, the Government of India do not permit the State Governments to audit accounts. When a State asks for opening a new telegraph office, it is required to guarantee its expenses. If the office is running profitably the Government of India keep the profit, but if there is a loss the State is expected to make up the deficit, while the State is not allowed to audit the accounts or have any hand in the administration of the office.

Postal Policy. With regard to Post, too, the States experience nearly the same disabilities as in the case of telegraphs. While all the profits accruing from the department are appropriated by the Government of India, the States are made responsible for the safe carriage of mails through their territories, made to defray in some cases the expense of carriage of mails over certain routes

and to receive in their safe custody postal monies. In the case of States which have entered into postal conventions with the Government of India, the Indian postal department invariably enters into competition with the States' postal departments, thus entailing loss to States' revenues. In the case of States which have permitted the postal departments to be worked by the Government of India in consideration of the issue of service postage stamps for official use, the Government of India show great disinclination to increase the issue in accordance with the expanding needs of the States.

Restrictions on Production of Opium.

An example of how the Government of India has been exerting its power to regulate the production of mineral or agricultural produce in States in the interests of British India is provided by their policy with regard to *opium*. The attempt has been to acquire a monopoly both for the internal and external markets. This led to their exacting one-sided agreements, under pressure, from opium producing States by which the States received little compensation in return for their sacrifices. Wherever such agreements could not be secured resort was made by other means to crush all competition. To place opium grown in States at great disadvantage, a very high duty, ranging approximately from Rs. 3 to Rs. 6 per lb., was levied on opium exported from the States. About the year 1907, His Majesty's Government entered into the China convention and the occasion was utilised by the officers of the Government of India to press the States further to reduce or entirely to abandon the cultivation of opium and thereby fortify the monopolist position. The States did their utmost to co-operate with the Government of India in carrying out the policy

laid down by His Majesty's Government, but the Government of India, always concerned to safeguard its own financial interests, paid no regard to the States' interests. It inflicted a variety of injuries upon them by refusing to allot to them a fair share of the extensive non-China trade, to allow them to start their own morphia factories or even to abandon the duty levied on opium grown in the States.

Harmful Effects of the Policy.

In 1913, when there grew a great demand for Indian opium in the world market, the Government of India allowed a very limited amount of cultivation in the States, on condition that the produce was sold to Government at a fixed price. The Government of India thus monopolised profits from this expanding market and deprived the States from taking any advantage from the new demand. The demand for Indian opium, however, soon fell to a low level, chiefly due to the low morphine content of the Bengal opium manufactured by the Government of India. It is believed that if the Malwa opium noted for its superior quality, had been exported the world demand could have been maintained. Unfortunately this opium was grown in the several States of Central India and Rajputana only and, in their anxiety to maintain a complete monopoly, the Government of India refused to encourage its production. The result of this policy was the loss of a valuable market, entailing loss not only to the opium growing States but also to India as a whole.

The main policy of the Government of India still continues to be the same. Attempts are still being made to stop altogether the cultivation of opium

in the States. While continuing to deny to them what remains of the non-China market, the Government of India is still trying to deprive the opium-producing States of their internal markets. In brief the policy of the Government of India is to make its monopoly complete, thereby assuring it the largest possible revenue from opium and assuring the provinces of British India the largest possible revenue from excise.

High-handed Actions of the Government of India. Several States, like Kashmir, Sirmoor, Kishangarh and Bahawalpur, have been compulsorily deprived of utilising the full benefit of the waters of their own rivers, in order to enable the provincial governments to realise the highest revenues from irrigation works and benefit the British Indian cultivators in preference to those of the States. In the State of Bhor protective irrigation works were constructed for the benefit of British Indian districts which submerged large areas of State territory. The State was given no land in exchange and was deprived of its jurisdiction over the submerged area. Several of the Bihar and Orissa States are rich in mineral wealth and the Government of India have imposed restrictions by enforcing rules framed to protect their own interests so that these States cannot develop their mineral resources to their fullest extent.

Wherever the Government of India expected immediate profits by the exploitation of the natural resources of a State, it rarely hesitated to acquire their control often under pressure on nominal consideration. There are cases on record where the Government of India on the expiry of a lease have not only refused to surrender the property, but have even insisted on its renewal without

agreeing to a higher compensation which under the circumstances appeared equitable.

Again, with regard to their financial transactions, similar restrictions are imposed on the States. Many States desire the development of their natural resources, but cannot do so due to difficulties imposed by the Government of India on the flow of capital into the States. They cannot raise external loans without the specific permission of the Government of India, and they are not free to lend or invest money outside their territories. Further restrictions are imposed on the acquisition of landed property by the Princes in British India.

These instances are enough to show that the economic policy of the Government of India towards the Indian States has been governed by two main principles :

(1) The financial exigencies of the Government of India and the Provincial Governments override the rights of Indian States and

(2) the resources of the Indian States may be exploited to as large an extent as possible for the material benefit of British India.

The injuries resulting from the policy cannot be exaggerated. In pursuit of its objects of promoting the economic advantage of British India, the Government of India have shown utter indifference to the rights of the States whose interests it was the duty of the British Government to protect.

Butler Enquiry Fails to Recognise Rights of States.

With the inauguration of the Chamber of Princes, the Princes acquired a platform through which they could press for the rectification of existing wrongs. In response to their demands the Indian States Committee of 1928 was instituted. This committee, after protracted investigations, arrived

at certain conclusions which only recommended the perpetuation of these wrongs. The committee endeavoured to suggest that intervention even in disregard of treaties, being of long standing, had become a matter of usage and was as such justified in future. With regard to various financial claims of States, although it was admitted that the Paramount Power was not justified in interposing its authority to secure economic relations beneficial only or mainly to British India, the committee manifested a close adherence to the policy of the Government of India as sketched in the foregoing paragraphs. It ignored the difference between lawful and unlawful usage and cited instances of intervention in disregard of treaty provisions in its attempt to establish that what was done in recent years was not different from what the Paramount Power did at an earlier date. This line of argument naturally caused resentment among the Princes and instead of alleviating their doubts and fears only brought out the fact that the Paramount Power still continued to identify its interests with those of British India and treated the treaty rights of the States as of little account wherever they stood in the way of the political or economic encroachments of British India.

Such was the state of affairs when the attention of the Princes was suddenly diverted from the somewhat circumscribed problems involved to those of a greater and more important conception—the All-India Federation.

CHAPTER VI

DEVELOPMENT OF THE IDEA OF INDIAN FEDERATION

Compulsory Isolation of the Princes. Prior to the formation of the Chamber of Princes there was no machinery, except through the channel of political officers, to enable the Government of India to gain direct and correct information regarding the special conditions of States and to ascertain their joint views on general questions of policy and administration. The Princes had no voice in the counsels of the Government of India in keeping with their importance and the magnitude of interests which they represented, and no arrangements existed whereby the claims or disabilities of States could be collectively brought to the notice of the British Government. The British Government hitherto insisted on dealing with each State separately and forbade the States to concern themselves with anything but their own affairs. Modern forces, however, had made this policy out of date. A new generation of Princes was becoming alive to the necessity of an organised effort to protect their interests while the British administrators on the other hand realised that a successful imperial policy could not be carried out without joint consultation with the Princes.

Policy Altered.

During the Viceroyalties of Lord Hardinge and Lord Chelmsford the practice grew up of inviting conferences of ruling Princes of India with a view both of securing the expression of their collective opinion and of providing opportunities for counsel and consultation in matters of common concern to the whole of India, and by 1917 these conferences had become almost regular annual functions. These conferences were asked to express opinion on questions like the political relations and practice between the Government of India and the States, provision of statistics and the education of minor Princes and Chiefs. The idea of the formation of a Chamber of Ruling Princes was first evolved at an informal meeting held in February, 1918, in Delhi, when ten of the progressive Princes conferred with the Viceroy and Mr. E. S. Montagu, then Secretary of State for India. With the publication of the Montagu-Chelmsford Report the idea took permanent shape and the Chamber of Princes as it exists to-day was set up by Royal Proclamation on February 8, 1921.

Montagu-Chelmsford Reforms.

Referring to the Indian States, the Montagu-Chelmsford Report says: "Looking ahead to the future we can picture India to ourselves only as presenting the external semblance of some form of Federation. The provinces will ultimately become self-governing units, held together by the Central Government which will deal solely with matters of common concern to all of them. But the matters common to the British Provinces are also to a great extent those in which the Native States are interested—defence, tariffs, exchange, opium, salt, railways, posts and telegraphs. The gradual concentration

of the Government of India upon such matters will therefore make it easier for the States while retaining the autonomy which they cherish in internal matters, to enter into closer association with the Central Government if they wish to do so. But though we have no hesitation in forecasting such a development as possible, the last thing that we desire is to attempt to force the pace. Influences are at work which need no artificial stimulation. All that we need or can do is to open the door to the natural developments of the future." *

Constitution of the Chamber of Princes.

The establishment of the Chamber of Princes was an important event in the development of relations between the States and the British Government, as the former policy of discouraging joint action between States was now replaced by a more liberal one of co-operation and consultation. The Chamber of Princes consists of 109 members who are rulers of States enjoying full, or practically full, sovereign status, and 12 members representing minor States. Under its constitution the Chamber is a deliberative, consultative and advisory but not an executive body, and its functions include :

(*a*) Initiating proposals and making recommendations relating to the preservation and maintenance of treaties and of the rights and interests, dignities and powers, privileges and prerogatives of the Princes and their States, and

(*b*) discussing and making representations upon matters of imperial or common concern and subjects referred to the Chamber for consideration by the Viceroy.

* *Vide* " The Montagu-Chelmsford Report on Indian Constitutional Reforms, 1919," paragraph 300.

Chamber an Ineffectual Organisation.

The limited scope and functions of the Chamber of Princes made it a very ineffectual organisation, and many Princes from the very outset refused to have anything to do with it. But though the Chamber of Princes was thus handicapped it nevertheless performed a very useful purpose. It brought together a large number of Princes every year to Delhi where they exchanged ideas and discussed things which required joint attention. A strong body of public opinion soon grew up among the Princes and the Chamber soon pressed the British Government for the restitution of their treaty rights and the removal of certain discriminative disabilities imposed on the States. The outcome was the appointment of the Indian States Enquiry Committee (1928) whose report, as we have said in the previous chapter, was profoundly disappointing to the Princes.

Demand for Arbitral Machinery.

The Princes had for long been demanding the establishment of a system of arbitration in order to secure the impartial decision of justiceable issues in disputes between States *inter se* and States and the Government of India. The outcome of their demands was that the Government of India passed a resolution which enabled that Government to employ, at its discretion, the form of an impartial arbitration to settle differences between itself and the States, but reserved the right of the Government of India to accept or reject the result of such arbitration as seemed to it desirable. The very idea of arbitration was thus reduced to a farce. Since then several opportunities came when the principle of arbitration could be resorted to, but the Govern-

ment of India always took on itself the sole responsibility to decide.

Necessity of States' Taking Part in Shaping All-India Policies.

In the meantime the working of the Reforms of 1919 had shown that British Indian legislation could effect the interest of the States very deeply, both directly or indirectly. The States found that in a variety of ways, for example, the fixing of the rupee ratio and the imposition of protective customs duties, their interests were being affected by policies in the determination of which they had no hand. It was felt imperatively necessary to evolve some constitutional machinery that would bring about closer co-operation between the States and British India. In his speech delivered before the East India Association in London on July 23, 1928, H.H. the Maharaja of Patiala, then Chancellor of the Chamber of Princes, said: "Regarding the precise form of the constitutional machinery which is to inaugurate, as we hope, a new era, there are still some differences between us. I think it is fair to say that we are all agreed that there must be something like a Federation for India, and by Federation I mean nothing more than a machinery which will enable British India and Indian India to meet together at the top, and to discuss jointly, in a manner consonant with the interests and importance of each, all policies and proposals which affect India as a whole." With the appointment of the Indian Statutory Commission under the Presidency of Sir John Simon, this question came to the forefront.

The Simon Commission.

In its recommendations the commission reiterated the belief that "the essential unity of Greater India will one day be expressed in some form of

federal association, but that the evolution will be slow and cannot be rashly pressed." * But before the Commission's report could be published the Indian political situation had rapidly changed. On October 31, 1929, the Viceroy announced the summoning in London of a Round Table Conference representing all the interests concerned to discuss British Indian and All-Indian problems for seeking the greatest possible measure of agreement for the final proposals for the Indian Constitutional Reforms to be placed before Parliament. The Princes welcomed the proposal with enthusiasm, and at the first Round Table Conference held in London in the autumn of 1930, the Indian States were adequately represented.

The Indian Round Table Conference.

Princes Accept Ideal of Federation.

At the very first sitting the spokesman of the British Indian Delegation appealed to the Princes and States to join an All-India Federation by establishing a Federal Legislature and a Federal Executive. The representatives of the Princes promptly accepted the invitation and declared that if the sovereignty and treaty rights of States were guaranteed and their essential interests duly protected, they would favourably consider any such proposal.

This patriotic offer by the Princes completely transformed the situation. The Simon Report, although adhering to the Federal principal, had considered it as a distant ideal and had only gone so far as to propose the establishment of a Council of Greater India, in which the representatives of British India and the Indian States should sit for

* "Report of the Indian Statutory Commission, 1930," Vol. II, paragraph 228.

the discussion of matters of common concern. With the prospect of the States bringing in a powerful element of stability into the governing machine, the case for a responsible Government in the Centre was very greatly strengthened, and the British Indian leaders and publicists saw in this the realisation of the ideal of Dominion Status for India. During the discussions at the first Round Table Conference substantial progress was made in sketching a Federal Constitution, but as the outline of the picture began to evolve the Princes began to entertain doubts as to the advisability of their joining an All-Indian Federation. They began to fear that smaller States would suffer the fate of the smaller German principalities under the Confederation of 1815, and these fears were further aggravated by a few impolitic pronouncements of some irresponsible Congress leaders on their intentions towards the Princes if they gained power. His Highness the Maharaja of Patiala was the first to warn the Princes against the dangers involved in accepting the Federal Structure Committee's plan and suggested a modified plan of Federation under which the Princes instead of joining singly would as a body form a group of their own and join the Federation for certain specific purposes only. Later, however, the Princes arrived at a settlement whereby it was agreed that the terms of entry into Federation should be settled by the Princes jointly, and that no State should join singly unless over 50 per cent. of them were willing to do so.

Princes Begin to Have Doubts.

The main anxiety of the Princes was to safeguard their integrity and their rights under treaties. In 1931 they drew up a list of conditions which were to be their *sine qua non* for Federation, implying

that unless the conditions and safeguards contained therein were included in the Constitution the Princes would not be able to join. Their representatives continued to press the Princes' standpoint at the successive Conferences in London, and in their evidence before the Joint Parliamentary Committee. The plan that finally evolved may be summed up as follows:

First Outline of the Federal Plan.

The Crown should grant autonomy to the British Indian Provinces and these autonomous provinces should join together to form a Federation. A list of exclusively federal subjects was drawn up in which the principal were Defence, Foreign Affairs, Railways, Posts and Telegraphs, Shipping and Navigation, Currency and Coinage and Banking and Public Debt, along with certain sources of revenue considered necessary for the discharge of federal functions, while other subjects were left to the provinces. In certain matters like Civil and Criminal Law and Labour and Trade Unions, concurrent powers were to be exercised by the Federal and Provincial Governments. As the Indian States lie outside the jurisdiction of the British Parliament, the rights, authority, and jurisdiction which will thus be conferred by the Crown on the new Federal Government cannot extend to any Indian State. It follows that the accession of an Indian State to the Federation cannot take place otherwise than by the voluntary act of its Ruler. The Constitution Act cannot itself make any Indian State a member of the Federation; it will only prescribe a method whereby a State may accede and the legal consequences which will flow from the accession. There can be no question of compulsion so far as the

States are concerned, their Rulers can enter or stand aside from the Federation as they think fit.*

Essentials of Federation.

It was also recognised that unless the Rulers of States representing at least half of the aggregate population of the Indian States and entitled to not less than half the seats to be allotted to the States in the Federal Legislature have signified their desire to accede to the Federation, the All-India Federation will not be brought into existence. Rulers of States will signify to the Crown their willingness to accede to the Federation by executing an Instrument of Accession and "this Instrument will enable the powers and jurisdiction of the Ruler, in respect of those matters which he has agreed to recognise as Federal subjects, to be exercised by the Federal authorities brought into existence by the Constitution Act, strictly within the limits defined by the Instrument of Accession. Outside these limits the autonomy of the States and their relations with the Crown will not be affected in any way by the Constitution Act."†

Mode of States' Entry.

Now the question of States' accession to the All-India Federation involves several legal anomalies and difficulties and in order to realise their importance it would be advisable to examine them briefly. The first point is that the creation of a Federation involves a uniform nationality and double allegiance on the subjects of the States, and the Princes, jealous to safeguard their sovereign rights, are anxious to avoid this. The Rulers of Indian States are not prepared to

Problem of Double Allegiance.

* "Report of the Joint Select Committee, 1933–34," Paragraph 157.
† *Ibid.*, Paragraph 155.

admit that their own subjects are also the subjects of any Federal Government, and they do not agree to let the allegiance their subjects owe to them to be divided between them and the Federal Government. A partial remedy to this difficulty has been suggested in the simultaneous enactment by the States of the laws passed by the Federal Legislature, so that the enforcement of a Federal law in an Indian State would be, in fact, the enforcement of the law of the State. It is clear, however, that conflicts of law are bound to arise between the constituent units and the Federal Government, and to meet this contingency the establishment of a Federal Court has been suggested.

The Federal Court. This Court, apart from its advisory functions, is to have original and exclusive jurisdiction in matters involving the interpretation of the Constitution Act or of Post-Federal agreements and also exclusive appellate jurisdiction from any decision given by a High Court or State Court so far as it involves the interpretation of the Constitution Act or of any rights or obligations arising thereunder, and its decision will be binding on all the courts within the Federation. This necessarily involves the subordination of the State Courts to the ruling of an outside authority. On the other hand the vesting in the Federal Court of the right to interpret the Constitution is a denial of the supremacy of the Federal Legislature and may lead to the Court assuming dictatorial powers. Further, if a Federating unit defied the authority of the Federal Court, it would be very difficult to enforce the Court's decision, or in cases of conflict between a State law and a Federal law the prestige and sovereignty of a State Government will be seriously jeopardised

if the authority of the latter was made to prevail. The difficulties in this direction seem to be great, and the success of the Federation would to a great extent depend on the competence and favourable working of the Federal Court.

The Instruments of Accession.

The Instruments of Accession referred to above will of necessity differ in the case of different States, although in expression and phraseology they may follow standard form. Out of the list of exclusively federal subjects drawn up as a result of joint deliberations,* it was considered necessary that in order to make the Federation effective the Princes should be willing to accept items 1 to 45 as Federal subjects. But many States are determined to make exceptions or reservations with respect of several important items, e.g. Hyderabad is not likely to give up control over currency and coinage, several important States do not want to amalgamate their postal systems with that of Federal India and the Maritime States do not seem agreeable to forego the right of levying their own sea customs. The result will be that each State will stand on its own peculiar relationship with the Federation and this will give rise, in the working of the Federation to numerous difficulties and will be fertile source of disputes between the Federal Government (wherein the States will be in a minority) and the Federating States. So far as the justiciable issues are concerned a remedy to this difficulty may be found in so constituting the Federal Court that in cases of Federal disputes in which States are concerned, half the number of judges, apart from the presiding judge, are chosen

* Items 1 to 47 according to the Government of India Act; *Vide* Appendix B.

from members of States, somewhat on the lines of the German Federal Court. Thus the States, being the weaker party in the Legislature, would receive some compensation in the composition of the Court which will have judicial power over practice resulting from legislation.

Right of Secession Inherent in the Sovereignty of the Princes.

Another vital question is the right of the Princes to secede from the Federation. By virtue of their sovereignty the Princes, their heirs and successors have in principle and from the start a right to denounce their conventions of accession to Federation and withdraw from it, though they may of their own free will restrict this right to exercise it only in case they find that the Federal arrangements are injuring the interests, rights and privileges of the States and cannot be rectified. In the words of A. H. Stephens: "The bare fact that all the powers parted with by the States were delegated only, as all admit, necessarily implies that the greater power delegating still continued to exist. . . . The general rule is, if all the other States . . . faithfully comply with their obligations, under the Compact of Union, no State would be morally justified in withdrawing from a Union so formed, unless it were necessary for her own preservation. Self-preservation is the first law of nature, with States or nations, as it is with individuals." *

This inherent right of the States was not admitted by His Majesty's Secretary of State for India, who in his evidence before the Joint Parliamentary Committee stated that when the Crown placed the Power acquired from the Indian States at the dis-

* Quoted by Jacobson in "Development of American Political Thought," pp. 457–459.

posal of the Federation for the functioning of the Federation, it became part of the Federation and the Crown could not return it to the States nor could the States demand or resume it later on.*

Remarks of the Secretary of State Criticised.

This line of argument follows more the principles of expediency than logic or precedent and can at best be considered as an expression of personal opinion. For, there exists no absolutely reliable or general principle for or against the right of secession. The question can only be answered on the basis of the form of the Treaties of Accession and the nature of Federation. In regard to the right to denounce treaties, it is clear that where such right is expressly reserved in a treaty, it may be annulled on the satisfaction of the conditions provided thereby, and even in cases where the right has not been thus reserved, the treaty may be annulled when the change of express or implied conditions contemplated by the Treaty gives reason for its denunciation. Thus Hall, discussing the test of the voidability of treaties says : "Neither party to a contract can make its binding effect dependent at his will upon conditions other than those contemplated at the moment when the contract was entered into, and on the other hand a contract ceases to be binding so soon as anything which formed an implied condition of its obligatory force at the time of its conclusion is essentially altered." †

American Precedents Quoted.

The Instrument of Accession by which a State enters the Indian Federation is a treaty under International law and if a Ruler, in his Instrument

* *Vide* "Minutes of Evidence given before the Joint Committee," pp. 1185.

† "Hall's Treatise on International Law," p. 407.

of Accession, reserves the right of secession in certain contingencies, that right cannot be denied. Such a reservation was, for example, made by the State of Virginia in its Act of Ratification of the United States Constitution in the words : "That the powers granted under the Constitution, being derived from the people of the United States may be resumed by them, whensoever the same shall be perverted to their injury or oppression, and that every power not granted thereby remains with them and at their will." The States of New York and Rhode Island, too, made the point equally clear by declaring that "the powers of government may be re-assumed by the people whenever it shall become necessary to their happiness." *

The nature, too, of Federation in India differs from other Federations that may be supposed to bear some resemblance to it. The Federation of India will be a union between British Indian Provinces, now under the effective control of the British Crown, which by Royal Proclamation will be raised to the status of practically autonomous entities and the Indian States, enjoying varying degrees of sovereignty that would of their own free will accede to the Federation by formal Instruments of Accession, thereby surrendering certain of their sovereign rights to the Federation. Each of these Federating States will differ from the other in its relationship with the Federal Government, while many will reserve to themselves rights, varying from case to case, that are considered essential to be federalised. Thus the main features found in the American and German Federations of a general mandate from the people and the equality of status among the federating units would

* Jacobson's "Development of American Political Thought."

be entirely wanting in the case of India. The ruling opinion, therefore, that in the United States of America no State has a right to secede, though the constitution does not expressly forbid it, is not applicable to the Indian case. The position in Germany is, of course, entirely different for the constitution of Weimar, 1919, by its very nature precludes the idea of secession as there are no reservations on the part of the federating States with regard to withdrawal from the Reich. The Indian States, however, in view of the uncertainties involved, may choose expressly to reserve, in their Treaties of Accession, the right to secede which right is a kind of correlative to the accession of a sovereign State, and which may be used as a corrective, in any serious contingency in future.

CHAPTER VII

FEDERAL FINANCE

Factors Contributary to Federation.

Federalism is only a method adopted for the attainment of an ideal and Federal Finance is a necessary corollary to it. It is true that in most federations in history, the primary incentive has been the sentimental impulse to unite on the part of peoples having some form of racial, cultural or regional affinity, but this impulse had in all cases essentially a political and economic background. It was either to gain strength by pooling their resources for aggressive or protective purposes or to gain economic advantages by way of economies of administration and facilities of trade. The essential factor, therefore, in the creation of the desire to federate is that there should be a reasonable prospect of the federating units gaining definite material advantages both individually and collectively. In order to gain these advantages and to make the Federation effective and useful, a number of sovereign states voluntarily entrust some of their administrative activities to be conducted by a joint organisation, and provide adequate sources of revenue to enable this joint body successfully to carry out its responsibilities.

Dissimilarities of Federation.

The extent to which this division of power and functions between the federating units and the Centre is agreed upon amongst the constituent elements has differed from case to case. A vital question is whether the residue of sovereignty lies with the Centre or the constituent elements. Where the centripetal forces are stronger than the centrifugal ones it lies with the former and vice versa. The British Commonwealth of Nations, comprising as it does, of practically independent dominions, is a good example of a Federation where the tendency is for power to recede from the Centre, while in the present German Republic the forces are acting in the contrary direction. There are thus no hard and fast rules governing the form of a Federation. It depends entirely on expediency, the special conditions of the case, and the express or implied will of the federating elements. The only common characteristic of Federations is that Federalism necessarily implies a division of the sovereign powers and functions between the Federal Authority and the federating units. As every activity of government requires the means to conduct it, the power to levy taxes and incur expenditure, is of necessity exercised by the Federal Authority, though this power is limited to the extent of its Federal responsibilities. This function of the Federal Authority is nowadays commonly expressed by the term "Federal Finance," as opposed to "Unitary Finance," applicable to the financial transactions of countries having a centralised form of government.

Definition of Federal Finance.

Primary Elements of Public Finance.

By a successive process of scientific reasoning and research the economists of various countries have evolved certain basic principles and laws which comprise the modern science of Public Finance, and these principles are equally applicable both to Federal and Unitary Finance. It is a commonplace that the government of a country is responsible for the performance of certain functions and duties which involve expenditure and necessitate the exercise on the part of the government power to raise revenue. In organised communities these processes are conducted through the medium of money, and the raising of revenue is usually done by the imposition of various taxes and less frequently by exacting actual services from the nationals. In the words of Dr. Hugh Dalton : "Most of the operations of public finance resolve themselves into a series of transfers of purchasing power. These transfers are made by taxation or otherwise, from certain individuals to public authority, and back again from these authorities by way of public expenditure, to other individuals,"* and thus these transactions bring about a maximum of welfare by the transference of consumable resources from the rich to the poor. There are, however, some forms of expenditure that involve a net loss to the country and may result either in a dead loss as in the case of indemnity payments or in partial loss as in case of payments to foreigners for services which could be performed by the nationals on a lesser scale of remuneration. It is only too evident that one of the main objects of a sound financial policy should be on the one hand to minimise this loss as much as possible and on the other to

* Dalton's "Principles of Public Finance," pp. 9–10.

promote the welfare of the people at large by the transference of purchasing power from one class of people to the other.

Principles of Federal Finance.

This latter principle when applied to Federal Finance is, however, beset with some difficulties. As opposed to Unitary Finance, here an additional factor, the regional, has to be taken into consideration. The process of equalisation has to be carried out not only as amongst the various classes of people, but also as between the Federating States *inter se*. Yet another difficulty is that in Federations there is always the chance of the financial transactions of individual States, counteracting those of the Federal Government resulting in an inequality of burdens and benefits. To safeguard against these difficulties, the activities of the Federal Government should be so regulated as to supply any possible deficiency in a particular State without encroaching as far as possible upon the freedom of action of the Federating State. This purpose may be achieved in many ways, for example by devising an intelligent system of taxation, the richer States may be made to benefit the poorer ones or the Federal Government may grant special subsidies to the latter to enable them to carry out beneficent projects. Moreover the fiscal policy of the Federation may be so devised that production is encouraged in the less productive States, and the flow of wealth from the richer States to the poorer ones is facilitated.

Another point to be remembered in this connection is that the constituent units within their own spheres of activities should be free from interference by the Federal Authorities and allowed to develop their resources without a feeling of cramp

or injustice. The method of special subsidies should be resorted to only in very special cases, for its overdoing may lead to lethargy and lack of initiative among the States.* Further, the sources of revenue and power to impose taxes should be so distributed between the Federal and State Governments that it would not only be adequate for the proper discharge of functions allotted to each, but would also allow of considerable expansion in times of emergency. On the other hand, in allotting sources of revenue care has to be taken as to whether a certain source can be better administered by the Federal or the State Government. For example, there is little likelihood of fraud or evasion if local authorities administered taxes on real property or income because, from the very nature of things, a State Government is in a better position to assess and control them than the Federal Government. It follows, therefore, that the most suitable sources of revenue for the Federal Government would be those which can be administered without a great deal of detailed and expert information and permit of little chances of fraud or evasion. Taxes on consumable goods, for instance customs and excise, would thus readily occur to one as the more fitting to the requirements of a Federal Government. And, of course, the concept of economy in the cost of administration has always to be remembered in all transactions of public finance.

The Principles Applied to Indian Conditions.

Keeping these broad and cardinal principles in view, we should turn our attention to the special conditions of India and see how a system of Federal

* *Vide* Adarkar's "Principles and Problems of Federal Finance," Chapter XII.

finance can be evolved that would bring about the maximum of benefit to the Indian people as a whole. It is evident that if an All-India Federation comes into existence at all, it will be only with the free consent of the Indian States that are at present independent entities in perpetual alliance with the British Crown, and their agreement to any proposed scheme of administrative or financial adjustment will be the deciding factor. The nature of the Federation will depend on the extent to which the States are prepared to relegate their sovereign functions to the Federal Authority, and consequently power to raise revenue will be delineated in proportion to the sphere of Federal activities thus agreed upon. The Princes do not appear agreeable to make considerable surrenders of their sovereign rights and privileges, and therefore a system of finance, which implies the economic allegiance of the States to an outside body, has to be ruled out of consideration. In an Indian Federation, therefore, the system of clear demarcation of Federal Authority and taxing power with full independence of action, of the constituent units in regard to residuary matters will of necessity have to prevail. It also follows that if any semblance of uniformity of relationship between the Federal Government and constituent elements is maintained, the sphere of Federal activity will have to be restricted to a minimum consistent with the idea of Indian unity and the rights and privileges of the Princes.

Indirect Taxes Suitable for Federal Revenues. It is obvious, therefore, that the mainstay of Federal finance in India will be a number of clearly defined indirect taxes that are capable of expansion and the imposition of which does not materially affect

the sovereignty of the States. Taxes like customs and excise on salt and petrol, for example, would evidently satisfy these requirements. So long as such taxes provide sufficient funds for the efficient discharge of Federal functions subject to the legitimate claims of the States for a share in these taxes being duly satisfied, there would be hardly any necessity for interference in the financial independence of the States. The Federal taxes by nature of their elasticity would make it possible for the Federal Government to meet minor emergencies and only in case of serious emergency, such as war, recourse may be had to direct Federal levies or taxes, although even then, in deference to the sensibility of the Princes on this point, such levies may be realised in the form of contributions from the States.

Equalisation of Welfare Amongst Federating Units. The activities of the Federal Government in regard to the equalisation of the welfare of the constituent peoples will need, at least in the early stages of Federation, great caution and judicious discretion. Most of the States, for reasons described in previous chapters, and several British Indian provinces, e.g. the North-West Frontier Province, are comparatively less developed than other Provinces, and the usefulness of the Federation will lie to a great extent in removing these inequalities. The Federal Government may incur expenditure in such a way that the poorer provinces and States get greater transfers of purchasing power. But this is again beset with difficulties. It may not be always possible to procure goods and services of a high standard from these units, and at best this method alone may not fully rectify the position. Th Federal Government in India may, therefore, fin

it necessary to impose some levies on the richer of the British Indian Provinces and distribute the money so realised among the poorer Federal units to make up their deficits or enable them to develop their resources. This leads us to two fundamental questions.

Federal Levies.

What would be the just measure of a Federal levy on a rich unit, and what should be the equitable basis of granting subventions to the poorer ones? The first guiding principle that would occur to anyone in this connection, is that in order to avoid causes of inter-statal jealousy and sense of injustice these transactions should not be based on arbitrary decisions. The classic formula, "from everyone according to his capacity and to everyone according to his needs" can with profit be applied in these cases. The Federal Government will have to keep correct and up-to-date data to determine the average *per capita* incomes and minimum standards of living in various Federal units. Far from solving the problem, this will only serve in a rough manner which of the units are poorer than the others. How much of its revenues a unit can forego will depend primarily on the amount of its average budget surplus after providing for normal administrative responsibilities, and ultimately on the excess of the total taxable capacity of the people of the unit concerned over and above the actual tax burden.

Federal Subventions.

With regard to the question of granting subventions to needy States the same principles would apply inversely, though in these cases several other matters will have to be considered. The mere fact of the index numbers of a certain federating unit showing comparative

poverty of its nationals would not be enough to call for a Federal subvention, for, a *prime facie* case would only be established when it is known that the State in question, in spite of imposing a high rate of taxation, is unable to raise to the average its cost of administration. It will be the proof of the fact either that the extensive territory and a sparse population necessitate greater *per capita* expenditure on administration or that, though it has a large population, the proportion of poor people to rich is larger as compared with other States. This particular activity of the Federal Government, however, will have to be administered with the greatest caution and should be designed specially to guard against the promotion of parasitism among the federating units.

Incidence of Federal Taxes.

The financial relations between the Federal Government and the constituent units will thus consist in effect only in payments being made by the Federal Government to each unit or payments in the opposite direction. For the incidence of the Federal indirect taxes will fall on the people of the federating units. But so far as the Indian States are concerned a settlement will at the outset have to be arrived at with regard to their financial claims, based on their treaties and engagements.

Satisfaction of the States' Financial Claims.

It would be wrong to ask the Indian States to waive their just claims merely because they show their willingness to enter the Federation. It has been suggested that these claims may be adjusted from Federal surpluses. But this is not so simple as it seems. In the first place the Federal Government for a long time to come may not have any

surpluses at all and secondly, granted that there would be surpluses available, it would be very difficult, in view of the lack of sufficient data, to make an equitable distribution among the States. Under these conditions the best course would be to surrender the items of revenue in dispute at their very source so far as it is practicable. For example, the claim of the Indian States with regard to sea customs can be amicably settled if the duties on goods in bond intended for the States is collected at the sea ports and reimbursed to the States. By a judicious application of this principle the majority of such claims would be satisfied, and in the case of other claims that cannot be so settled recourse may be had to direct payments.

The Indian Public Debt.

Another important problem, to be considered in connection with the question of the States' entry into an All-India Federation, is that of the Public Debt of the Government of India. On March, 1935, the interest bearing obligations of the Government of India amounted to Rs. 1,235.74 crores, comprising Rs. 722.38 crores in India and Rs. 513.36 crores or £385.02 million in England. Of this total, the amount of Rs. 981.03 crores was covered by interest yielding assets, and a sum of Rs. 51.52 crores was held in cash, bullion and securities on treasury account. The balance of total interest bearing obligations not covered by the above assets was thus Rs. 203.19 crores.*

Liability for pre-Federation Debt Should Fall on Provinces.

These obligations include debts incurred on behalf of several Provincial Governments, the debenture stock of various railways taken over on the transfer of the lines to Government, and the

* *Vide* Appendix F.

capital value of liabilities undergoing redemption by way of terminable annuities. These debts are chargeable to the revenue of British India which in effect means that their burden lies on the people of the British Indian Provinces. The Indian States naturally object to join as partners in a concern which is not solvent. It has been urged that in Federation these debts will continue to be charged to the revenues of British India, but this position is not quite distinct in its implications. In case of Federation, the Federal Government will step into the shoes of the present Central Government of India and will control sources of revenue towards which the people of British India and the Indian States will equally contribute. So long as payments for debt services are made from Federal revenues it will be next to impossible to let the burden of debt fall only on the British Indian people and not to effect the interests of the Indian States. The whole suggestion is, in fact, a platitude designed to lead the Princes into a situation which is highly injurious to their interests.

The Debt Should be Distributed Among the Provinces.

The natural solution would be to commence the Federation with an entirely clean sheet. It is the people of the British Indian Provinces that are responsible for the pre-Federation debts of the Central Government, and a considerable proportion of these includes debts actually incurred on their behalf. The position, so far as the incidence of the burden is concerned, will in no way change if this public debt is distributed amongst the Provinces. It will remove a serious obstacle to the Princes' entry into Federation and will give the Federal Government a free start at the outset. An equitable basis of distribu-

tion of the debt among the Provinces may be found by a just application of the principle of " Capacity " and to enable the Provinces to meet their obligations, adequate sources of revenue may be transferred to them.

CHAPTER VIII

WHAT INDIA NEEDS

In a previous chapter we have shown how the Government of India have in the past persistently followed a policy by which the Indian States were made to suffer for the benefit of British India, and it is a moot question to ask how far this policy, highly injurious and unfair as it was to some of the staunchest supporters of the British rule in India, helped to improve conditions in British India. An examination of those conditions and their causes will enable us to see whether this policy was really beneficial to British India in particular and the Indian Empire in general.

Consequences of British Rule.

A hundred years of British rule gave India a much needed peace by protecting her from external aggression and internal disorder and by developing modern means of transport and communications and constructing vast systems of irrigation, very nearly succeeded in stamping out the terrible scourges of rapine and plunder, famine and pestilence from which India periodically suffered from time immemorial. On the other hand the same rule exposed India to promiscuous foreign exploitation, so that while some conditions contributed to the increase in India's population, other causes

checked India's efforts to increase its national dividend in the same proportion.

Extreme Poverty of India.

It has been estimated that the average income of a British Indian citizen is about Rs. 44 or a little over £3¼ a year as compared to the English *per capita* income of over £50.* The Indian Banking Enquiry Committee (1931) discussing agricultural incomes in India, said: "The income of the agricultural population per head when separately assessed will be much smaller. From the reports of the Provincial Committees and other published statistical information, the total gross value of the annual agricultural produce would work to about Rs. 1200 crores on the basis of the 1928 price levels. On this basis and taking into consideration the probable income from certain subsidiary occupations estimated at 20 per cent., of the agricultural income, and ignoring the rise in population in the last decade and the fall in prices since 1928, the average income of an agriculturist in British India does not work out at a higher figure than about Rs. 42 or a little over £3 a year. Thus the general poverty of the agricultural classes is a matter which is beyond dispute." † This extremely low income is further reduced by Rs. 7 if we make allowance for taxes,‡ so that the actual income per head is 1.6 annas or about 1¾d. per day. Evidently this income is not sufficient even to procure the minimum of food necessary to nourish a human being,

* Wadia and Joshi, "The Wealth of India," pp 108–109.

† "Report of the Indian Banking Enquiry Committee, 1931," paragraph 57.

‡ The combined central and provincial revenues of British India being Rs. 210 crores and that of the States Rs. 46 crores makes the total tax burden of Rs. 256 crores on the Indian population. The population of the Indian Empire according to the census of 1931 was 352·8 millions. By distributing the total burden on this number we arrive at the per head contribution of over Rs. 7.

much less to provide clothes or house room on the very lowest scale. It is not surprising then to find the large majority of India's population to be underfed and underclothed, and of whom nearly one-fourth have never had a full meal in their life or a house worth the name to sleep in. The years of plenty followed by long or short periods of famine and plague that were a characteristic feature of the India of pre-British times have now given place to an era of constant and universal misery unparalleled in any country in modern times. The causes that have led to this situation are manifold, and it would be useful to examine them here cursorily.

Low Productivity. The first thing that strikes one in this connection is India's low standard of productivity. In view of its huge population and vast potential resources the productivity is surprisingly low as compared with other countries. In the year before the war India's gross produce, according to a liberal estimate, was Rs. 1573 crores,* or a little over £1,000 million, while the figure for Great Britain for the same year was supposed to be £2,000 million. So far as agricultural produce is concerned the yield per acre in India of staple products like wheat, rice and cotton is much lower than in most countries,† although natural conditions are proverbially favourable for agriculture. Evidently the economic efficiency of the people is

* Wadia and Joshi in "The Wealth of India," Chapter VI, estimated the gross value of produce of British India to be Rs. 1,210 crores after making allowance for the amount invested or set apart for replacement of capital and machinery, for seeds and manure and deductions for services that were valued twice over. The proportion of the population of the States to that of British India being 3 : 10 and taking other things as equal, the gross produce of Indian States would be Rs. 363 crores.

† See note at foot of next page.

very low. The condition of semi-starvation which has continued during the last hundred years under foreign exploitation has been undermining the physique of the people, and with the continuance of those conditions the process of deterioration goes on at an accelerated pace from generation to generation. At the same time the existing low level of national income combined with the potential drain on India's resources do not allow for any surpluses that could be utilised for adequate industrial expansion or general improvement in methods of agriculture on which such a large proportion of the population depends.

Loss to India's National Income.

The direct drain on India's resources may be estimated to be well over £100 million a year. This comes about in a variety of ways. One item is the administrative expenditure in England chargeable to Indian revenues, which in the year 1932-33 amounted to £26,244,000, and included interest on public debt incurred in England, some military

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Yields per acre in Bushels or Pounds in various countries compiled from the United States Commercial Year Book, 1933, for the year 1932–3.

Country	*WHEAT* *in bushels of 60 pounds*	*COTTON* *per acre in pounds*	*CORN* *per acre in bushels of 56 pounds*	*RICE* *per acre in pounds*
U.S.A.	13·2	165	26·7	1,259
U.S.S.R.	Not available	166	*	*
Argentina	11·7	*	28·4	*
Australia	12·8	*	*	*
Germany	32·9	*	*	*
Canada	15·8	*	*	*
Mexico	*	242	*	*
Egypt	*	400	38·0	*
China	*	*	*	609
Japan	*	*	*	2,377
Roumania	*	*	20·0	*
Korea	*	*	*	1,275
Formosa	*	*	*	1,725
Italy	*	*	33·1	*
India	10·0	90	14·9	837

* Not grown on large scale.

charges and furlough and pensions payments to the European employees of the Government of India. Next there is the profit on foreign capital invested in India, the amount of which it is not easy to estimate. The authors of "The Wealth of India" guessed * that in the year 1914-15 the foreign capital invested in joint stock companies, exchange banks, insurance companies, navigation and general trading companies, was £568 million. Since then the foreign investments have increased in volume and the above estimate does not take into account foreign capital invested in central and provincial loans floated in India, the interest of which is not included in the Home charges and the innumerable private firms, plantations and other holdings in landed property scattered all over India. We may, therefore, safely assume the amount of foreign capital invested in India apart from that guaranteed by the Secretary of State, to be in the vicinity of £1,000 million, and putting the yield at 5 per cent., a very low figure for business enterprises in India, the profit on this capital would be £50 million. Another source of drainage is the payment for services of foreigners who get paid "on the average in salaries more than five to one what the natives are paid," † and who send the greater portion of their incomes to be used and spent in a foreign country. The amount thus lost to India was estimated in 1873 by Mr. J. M. Maclean, a witness before the committee of the House of Commons on E. I. Finance to be no less than £20 million. To-day, when the number of foreign employees in Government and other institutions is larger and the scales of allow-

* " Wadia and Joshi, " Wealth of India," Chapter VI.
† Hyndman, " The Ruin of India by British Rule," p. 6.

ances in many cases higher, the sum of £25 millions would be a very modest estimate.

It would, therefore, not be far from the truth to say that of the total production available for distribution the sum of over £100 millions is irretrievably lost to India. It has been argued that most of this expenditure consists of payments made for actual services rendered, and as such cannot be considered as a direct loss to India. But the fallacy of the argument becomes apparent when it is remembered that the employing of every non-Indian throws at least one Indian out of employment and that the cost is much less if the same services are performed by Indians. Similarly, the activities of the Government of India in regard to the floating of external loans, force Indian capital, owned by people who would invest only in gilt edged securities, to lie idle or be invested in less profitable manner. This aspect of the question, however, we will discuss in another connection at a later stage.

Other Handicaps. But these are only the evident and direct losses that can be noticed and measured in terms of money. As a consequence of its connection with England, India suffers many indirect losses. Under the auspices of the British Government a number of handicaps have been imposed by the foreign vested interests on India's efforts to solve its own problems in so far as they effect such interests. It was, for instance, to benefit Lancashire that the unpopular excise duty on cotton manufactures * was imposed, and various restrictions were placed on India's developing a mercantile marine in order to protect British ship-

* For detailed investigation of this problem see Vakil and Munshi, "Industrial Policy of India," Chapter II.

ping interests. It is primarily to safeguard the foreign invester and promote trade with England that India is forced to have its currency linked with pound sterling, in spite of the fact that the whole country is united in its demand for monitary independence, and expert opinion considers the subordination of the rupee to sterling as highly injurious to the best interests of the country.

Loss Due to Currency Policy.

Thus the dissentient member of the Royal Commission on Indian Currency and Finance (1926), criticising the currency policy of the Government of India, mentioned the various ways in which India incurred material loss. He remarked that :

" (*a*) It has involved the circulation of a very large number of token coins in India which could not be converted into international money, and, indeed, have proved to be a source of embarrassment to the Government in periods of weak exchange. This led to the unparalleled difficulties of the Government of India in 1918, and necessitated the purchase of large quantities of silver at abnormally high prices involving a correspondingly heavy loss on the Indian Exchequer.

(*b*) It has locked up the Gold Reserves in a form which admittedly involves difficulties in realising them.

(*c*) It has been the cause of grave misunderstandings between the Government of India and the public of India, misunderstandings for which the Government cannot possibly be blamed, and which can only be regarded as natural, and inevitable under the circumstances, on the part of the people of India. The policy of secrecy adopted has aroused serious distrust in their minds of the system as a whole. This distrust having

continued over a period of a quarter of a century cannot be removed without wholehearted measures. It is true that the policy adopted has earned for India a certain amount of interest on her reserves. It is stated that, up to March 31, 1925, the net profit on investments has been £17,962,466 in interest and discount, after allowing for losses due to depreciation in value. The loss on sale of Reverse Bills in India exceeds Rs. 22 crores. Besides this, one has also to take into account the effect produced on the public mind by the inability of the Government to realise at critical junctures the securities in which the Reserves have been locked up." *

Commercial Traditions Govern British Policy in India.

The average Indian is therefore forced to conclude that the miserable plight India finds itself in, is the unfortunate outcome of its liason with England. It is well known that the territories now comprising British India were acquired in the first instance by a British trading concern whose primary aim was profit and, although by force of events the East India Company found itself the ruler of vast territories in the East, it remained essentially a business concern, for all its wars were fought and territories acquired and administered purely with the object of material gain. The act of governing was reduced to a particular form of commercial activity, and there are numerous instances in the history of the Company's rule in India in support of this assertion. For example, in the war between the Rohillas and the Nawab Vizier of Oudh, the Company placed part of its military strength at the disposal of the latter in consideration of a sum of

* *Vide* Sir Purshottamdas Thakurdas's "Minute of Dissent to the Report of the Royal Commission on Indian Currency and Finance, 1926," p. 115.

money, and at a later date the Himalayan portion of the conquered Sikh kingdom of the Punjab was sold in full sovereignty to the highest available bidder, partly to meet the cost of the last war and also to get rid of a difficult and sparsely populated province the administration of which did not for the time being promise any profit.

With the taking over of the Indian administration by the Crown in 1858 the outlook somewhat altered, but in stepping into the shoes of the defunct East India Company the Government of India under the Crown also inherited certain traditions, which were kept alive by the services, the composition of which was not materially affected by the change of constitution. In the home country India continued to be looked upon as the "brightest jewel in the Crown of England," not because it was a great and ancient country, but because of all the dependencies of England, India contributed to the greatest extent to its national income. In giving India its wonderful systems of railways and irrigation England also incidentally found new ways for investing its surplus capital, and by giving the country peace without power it placed the nation at the mercy of foreign exploiters.

Similar Motives Governed Attitude Towards Indian States.

In a previous chapter we discussed how by the Government of India's policy of interference and penetration into their affairs, the Indian States were made to suffer, but British India as we have seen did not appreciably gain thereby. That policy was dictated by the sole motive of bringing the Indian States, like British India, under the sphere of effective British exploitation. The first step in that direction was taken when the States agreed, in most cases under pressure, to accept

British Indian currency and step by step the way was made easier by extending the scope to further fields such as railways, post and telegraph, customs, salt, opium and a number of other things.

Obstacles in the Way of Exploitation of States.

But although the rights of the States were thus flagrantly violated, sometimes on the pretext of public expediency, and more often under the undefinable principle of paramountcy, there was still one important obstacle that did not allow the foreign exploiter, working under the patronage of the Government of India, absolute freedom of action in States, as in the case of British India. This was that the States were internally autonomous principalities and the writ of His Majesty did not run in their territories. Their treaties, which defined their rights and which were entered into when the British power was still weak in India, were now a hindrance in the path of the furtherance of British interests and though the new formula of paramountcy could in effect render these treaties mere "scraps of paper," the form of treating them as "inviolate and inviolable" had still to be kept up.

These Obstacles Would be Removed if States Join Federation.

A way, however, was found out of the difficulty. Indian agitation for Home Rule had gathered an intensity that could no longer be ignored without risk of grave consequences, and so long as the economic subservience of India to England was maintained and the coercive authority retained in British hands not much harm would be done to British interests, if popular demands were met by giving India a limited form of self-government. Popular sentiment all over India was strongly in favour of an All-India Federation, and if the States

could be induced to join in, they would not only form a group in the legislature on whom the British Government could rely for support to their policy, but their very act of joining the Federation would bring them under effective subordination of the Federal Authority, to the further prejudice of their independence and internal sovereignty, which as we have shown in a previous chapter had already been encroached upon. How far our conjecture is true, we shall see in the following chapters in our examination of the British Government's proposals for Indian Reforms.

Essentials of Indian Self-Government.

To continue our narrative, we have seen what India's present plight is and have discussed briefly some of the causes that have led to that said plight. There is little likelihood of any betterment in the welfare of the Indian masses as long as those causes are not radically removed and so long as the condition of the average Indian citizen is not improved, the grant of a constitution that gives India only a semblance of self-government, without power to tackle its own problems, will be of little practical use. To make it worth while such a constitution should give India real economic independence, that is to say, it should give India complete and unrestricted power to improve by all measures possible the economic efficiency of the people, to stop the drain on India's potential resources and abolish all handicaps imposed by vested interests in the development of its resources. Drastic ailments need drastic remedies and in the herculean task of ameliorating the lot of its 352 million citizens, living on the margin of starvation, a number of radical steps would be necessary. From the study of the problems involved, it would be

evident that a constitution that withholds from India the following powers is not intended to be in the best interests of the country.

(1) India should be free to adopt whatever monetary policy it considers most advantageous to itself.

(2) The export of capital and precious metal should be regulated.

(3) The Indian Legislature should have the power of imposing restrictions on persons other than Indian citizens to work for remuneration or do business for profit in India. This would probably affect recruitment abroad for Indian public services and may necessitate tackling the question of buying over by Indian nationals of external businesses and investments in India.

(4) A greater proportion of public revenues should be made available for nation building activities by making all round economies in administration by all means possible.

(5) The export and import of commodities should be controlled in such a way that would enable India to expand its industries to the fullest extent and give not only employment to more and more workers, but also increase national income and stop drainage of wealth.

Futility of Joining a Qualified Federation.

These are some of the fundamental remedies that suggest themselves readily to one, but they need not be resorted to indiscriminately and can only be considered as the possible and temporary means to an end, i.e. the welfare of the Indian masses. Most of the modern nations are to-day having recourse to methods similar to those mentioned above, and it would be inequitable that India, which is the poorest of all, in its average per head

income, should not be able to conserve its resources and improve the welfare of its people. If Federation brings about real fiscal and economic independence, the States would be well advised to join it, for in parting with a portion of their sovereignty, they will be joining a partnership that would be beneficial to them as well as to India as a whole. But in case such independence is not in sight, the loss in sovereignty consequent upon their entry into the proposed qualified Federation will only mean the continuance of the disabilities under which they are suffering and possibly a further deterioration in the wellbeing of their peoples.

This leads us of necessity to examine critically the scheme of Federal Finance as it evolves from the plan of proposed Reforms, to see whether in the light of the scientific principles it can be considered satisfactory. The main questions that naturally arise in this connection may be summarised as follows :

(1) Is the general plan of Federal Finance under the proposed Reforms scheme workable ?

(2) Is the scheme based on sound principles of public finance and those of equity implying an equitable distribution of burdens and resources among the component units ?

(3) Does the plan take into account the special view of the States and provide adequate safeguards to their treaty rights ? And finally :

(4) Does the proposed plan provide real remedies for India's difficulties ?

In the following chapters we will take up these questions one by one and as answers to these questions may fundamentally affect our conclusions it would be advisable to subject them to more than a mere cursory examination.

CHAPTER IX

IS THE GENERAL PLAN OF FEDERAL FINANCE UNDER THE PROPOSED REFORM SCHEME WORKABLE ?

Importance of Making Correct Forecasts.

The essence of success of any scheme of Public Finance lies in its being well balanced and the primary task of a Finance Minister is to make as nearly as possible correct estimates of income and expenditure and adjust them in such a way as to provide for the maximum of economy and efficiency in administration together with the greatest wellbeing of the people. The gift of prophecy being unattainable, the task of estimating what the revenue and expenditure are likely to be during a fixed period in future is a very difficult one. Such forecasts have to be based primarily on the needs of the administration, and an appreciation of the economic conditions that may reasonably be expected to prevail in the country during that period. Unforeseen causes may falsify the forecasts, but good finance consists in giving due consideration to factors that can be humanly foreseen. The first test of the workability of the proposed scheme, therefore, is whether the forecasts in the scheme of Federal Finance with regard to the financial position of the Federal Government and the Provinces are reasonable.

This would bring us to compare the existing financial position with the forecasts on the basis of which the Government of India Bill was drawn, viz., the forecasts of the Federal Finance Committee (1932) and the recommendations of the Joint Committee on Indian Constitutional Reform (1934),

Examination of Federal Forecasts.

The following table compares the Federal Finance Committee's forecast of the Central revenue and expenditure with the actual figures for 1934-35 and the budget estimate for 1935-36.

Revenue.	Percy Committee's Forecast.		Revised figures for 1934-35.		Budget estimate for 1935–36.	
Customs . .	51.20		51.17		51.84	
Collection .	.90		1.09		1.15	
Net . .		50.30		50.08		50.69
Salt . .	6.70		8.55		8.73	
Expenditure	1.15		1.16		1.18	
Net . .		5.55		7.39		7.55
Opium . .	.78		..		..	
Manufacture	.73		..		..	
Net . .		.5		.36		.25
Railways (net)		5.00		..		..
Currency and Mint (net) .		3.80		.55		.74
Miscellaneous (net)				3.52		1.83
Ordinary .	1.66					
Reparations .	.30					
Total . .		1.96				
States . . Contributions		.74		.74		.74
Income Tax .	18.00		17.25		16.40	
Collection .	.80		.85		.92	
Net . .		17.20		16.40		15.48
Total .		84.60		79.04		77.28

Expenditure.	Percy Committee's Forecast.	Revised figures for 1934–35.	Budget estimate for 1935–36.
Debt Services Interest.	11.25	10.28	10.39
Sinking Fund . .	6.50	3.00	3.00
Military Budget (net)	47.00	44.34	44.98
Civil Administration .	6.85	9.37	9.11
Pensions and Superannuation Allowances	2.65	3.41	3.50
Civil Works . .	1.60	1.23	.94
Frontier Watch and Ward and Subventions to N.W.F.P. . .	2.70	2.10	2.06
Miscellaneous . .	1.55	5.18	3.24
	80.10	78.91	77.22

Estimates of Customs and Income Tax Revenue too Optimistic.

The above comparison reveals in a striking manner how far removed the Percy Committee's forecast is from the real state of affairs. On the revenue side the Committee have admitted that in making their revenue forecasts they " have not taken into account the special surcharges on Customs, Income Tax and Salt as at present in force." An examination of the above figures will show that, their calculations have been entirely falsified by subsequent events. With the surcharges still in force, the Customs Revenue for 1934-35 was actually less than the Committee's forecast by Rs. 22 lakhs and the inconsiderable excess in the budget estimate for 1935-36 of Rs. 67 lakhs over the previous year's gross receipts was based chiefly on the expected betterment of receipts from excises on motor spirit, sugar and matches. The total net receipts under Income Tax, including super tax and taxes on low incomes for 1934-35 were 16.40 crores, i.e. 80 lakhs less than the Committee's forecast, while the estimate for 1935-36,

with only a partial (one-third) reduction in the rates of surcharges and taxes on low incomes was only Rs. 15.48 crores. The salt revenue alone shows a considerable excess over the Committee's forecast, but this was due mostly to large issues of salt in 1934 in anticipation of an increase in salt duty, while the estimates for 1935-36 were based on the assumption that the demand would continue at the same or a higher level.

Removal of Emergency Duties will Further Reduce Revenue.

In the event of surcharges on income and tax on low incomes being removed, the loss of revenue under Income Tax receipts would be Rs. 5.09 crores, reducing the revenue estimates for the year 1935-36 to Rs. 12.75 crores instead of Rs. 15.48 crores,* and so far as customs are concerned the removal of emergency charges would very largely reduce revenue under that head. Since 1931, import duties have been increased all round. For instance, the duty on machinery and printing material has been increased from 2½ to 10 per cent., on iron and steel railway material from 10 to 15⅝ per cent., on spirits and liqueurs from 15 per cent. to nearly 22½ per cent., on tobacco, cigarettes and cigars from 75 to 112½ per cent., and on cotton fabrics from 15 to 25 per cent., and heavy excise duties on motor spirit, sugar and matches have been imposed. The removal of these emergency duties will reduce revenue under customs by at least 20 per cent., or in other words the estimate for 1935-36 would be about 40.55

* In the Budget Estimates of 1935–36, an all-round reduction of those surcharges by one third was recommended The cost of these reductions was Rs. 1·36 crores. "The removal of the surcharges altogether would cost Rs. 3,34 lakhs a year while the removal of the tax on incomes between Rs. 1,000 and Rs. 2,000 would cost a further Rs. 75 lakhs." *Vide* speech of the Finance Member of the Government of India on introducing the Budget proposals for 1935–36, paragraph 38.

crores instead of 50.69 crores. The reduction of salt duty from 25 annas a maund to 20 annas would mean a further loss of 1.62 crores on an estimated consumption of 52 million maunds.

Railway Surpluses Unlikely.

Under the proposed scheme railways would come under the Federal Railway Authority entailing entire separation of railway finance from Federal Finance, and although stipulation has been made in the Government of India Act for the apportionment to Federation of a proportion of the surpluses, there is little likelihood of there being any surpluses at all for some time to come. During the financial years 1933-34 and 1934-35, railway receipts, less working expenses, amounted to 32.87 and 32.38 crores while interests and miscellaneous charges for the same years were 32.87 and 32.38 crores respectively,* so that there were no surpluses at all. The Committee's estimated surplus of 5.00 crores can only be obtained if gross traffic receipts from railways reached a figure of 113 crores. The maximum amount so far realised has been 103¾ crores in 1928-29 which included 5 crores on account of the railways in Burma, so that in order to obtain a surplus of 5 crores the traffic receipts of Indian railways, excluding those of Burma, have to exceed the best figures so far attained by about 14 crores. This is not a reasonable probability.

Adverse Factors not Taken in Consideration.

On the other hand in making their forecasts the Percy Committee "have assumed that Burma will be separated from India and have estimated the results of this change on such materials" as were

* *Vide* Explanatory Memorandum by the Financial Secretary, Government of India on the Budget proposals for 1935–36, page 12.

available,* while the figures for 1934-35 and 1935-36 given above comprise the total Central revenues of British India including Burma. In the opinion of the Joint Select Committee, the separation of Burma would involve a loss of revenue to India which may be " as much as 3 crores per annum, less the yield of any revenue duties on imports from Burma which may be introduced from the date of separation." † Assuming that Burma was separated and the emergency surcharges were removed, the budget estimates for 1935-36 would be reduced to the extent of loss :

due to separation of Burma . .	3	crores
removal of surcharges on Incomes ‡	·73	"
" " " " Customs .	10.14	"
" " " " Salt .	1.62	"
Total . . .	17.49	"

So that the actual revenues for that year would be 59·79 crores. The Committee's forecast of Federal revenue thus exceeds the estimates for 1935-36 by 24.81 crores on the basis of the separation of Burma and the withdrawal of emergency surcharges, and even if these surcharges were retained the position would still be worse by 10.32 crores after accounting for loss due to separation of Burma. The Joint Select Committee, on whose recommendations the Government of India Bill was based, generally endorsed the Federal Finance Committee's scheme and suggested that the Provinces should share to the extent of 50 per cent. in the proceeds of the taxes on income. If this is

* *Vide* Report of the Federal Finance Committee, 1932, paragraph 10.

† *Vide* Report of the Joint Select Committee, paragraph 267.

‡ The total revenue from surcharges on incomes and tax on low incomes was expected to be Rs. 4·09 crores. Of this a sum of Rs. 1·36 crores was reduced in the Budget proposals for 1935-36.

taken into consideration the revenue position would be further adversely affected by about 7 to 8 crores and by an additional 1 crore due to a "fresh factor" the cost of financial adjustments with the States,* as proposed under the scheme.

Forecasts of Federal Expenditure Examined.

On the expenditure side the actual position in 1934-35 was 1.19 crores better than the Percy Committee's forecast, and the estimates for 1935-36 were better by 2.78 crores, the principal differences being a reduction in debt charges due partly to redemption of loans bearing high rates of interest, and partial transfer to railway account of charges for the reduction and avoidance of debt, retrenchments in the Military budget and some other items on the one hand along with an under-estimation in the Committee's forecasts of expenditure under Civil Administration and Pensions and other charges. These forecasts, however, do not take into account the additional expenditure that would be involved under the proposed constitutional changes. Apart from the loss of 3 crores to Indian revenues consequent upon the separation of Burma, there would be, in the opinion of the Joint Select Committee, an additional expenditure of ¾ crores "attributable to the establishment of the Federation" and chargeable to Federal revenues, "by reason (*inter alia*) of an increase in the size of the Legislatures and electorates or the establishment of the Federal Court." †

Subventions to Sind and Orissa.

The separation of Sind would involve an initial deficit in Sind of about ¾ crores "and will have to be met by subventions from the Federal revenues,"

* *Vide* Report of the Joint Select Committee, paragraph 271.
† *Ibid.*, paragraph 267.

although the Joint Select Committee hoped "that this will gradually diminish and be ultimately extinguished over a period of some 15 years by the end of which time it is believed that the agricultural developments connected with the Sukhar Barrage scheme will be complete." * It is interesting to note that the Committee in this connection took some pains to prove that except for 10 lakhs, the cost of new overhead charges, there would be "no additional burden imposed upon the taxpayer of India as a whole," basing their argument on the fact that "if Sind were not constituted a separate Province this deficit would fall, to be met from Bombay revenues, except for a small sum of Rs. 10 lakhs" for the overhead charges. The Committee apparently overlooked the fact that the Central Government derived a sum of over 14 crores from emergency surcharges which are admittedly hard on the taxpayer, and the Government are pledged to remove them as soon as circumstances permit. The effect of relief given to Bombay by the separation of Sind will not be felt at all by the taxpayer in Bombay where the financial position does not promise the possibility of a reduction in provincial taxation in the near future. On the other hand the additional charge of ¾ crores will reduce to that extent the chances of relief in the Federal taxation. The total cost of the separation of Sind should therefore be regarded as an additional burden on the taxpayers of India as a whole. Considerations similar to those of Sind arise in the case of Orissa, which will require a subvention of something like 30 lakhs per annum. It follows, therefore, that the net burden

Fallacy of Committee's Argument.

* *Vide* Report of the Joint Select Committee, paragraph 268.

on the taxpayer consequent upon the inauguration of Federation will be increased by about 1.80 crores due to the creation of these new provinces.

Unreality of the Estimates.

Basing our calculation on the revised budgetary figures for 1934-35, when the position was better than that forecasted for 1935-36, we find that in the event of the separation of Burma, the Federal revenue with the retention of surcharges and the States' contributions would be Rs. 76.04 crores, while the expenditure with the additional cost of the separation of Sind and Orissa and other Federal overhead charges would be Rs. 80.71 crores, entailing a deficit of 4.67 crores. If, as suggested in the proposed scheme, the surcharges on incomes were removed, the receipts from taxes on income shared between the Federation and the Provinces on a fifty-fifty basis, the suggested financial adjustments with the States enforced and the emergency duties on salt and imports removed, the total revenue that the Federal Government can rely upon would not be more than Rs. 53.14 crores,* implying a deficit of about 27 crores, on the Committee's estimated Federal expenditure of Rs. 80.10 crores. This investigation therefore forces on us the general conclusion that the estimates of revenue and expenditure on which the proposed plan is based are not only too optimistic but are in all reasonable probability unattainable under the conditions obtainable in India.

* Net revenue from Income Tax in 1934–35 was Rs. 16·40 crores. Allowing for the removal of surcharges and tax on low income to the amount of Rs. 4·09 crores and remission of half of the balance to Provincial account the Federal Government's share under this head would be Rs. 6·15 crores, so that the total loss to Central revenues would be Rs. 10·25 crores. Other losses would be, on account of the separation of Burma, Rs. 3 crores; removal of emergency duties on salt and customs, Rs. 11·76 crores; and financial adjustments with States, Rs. 1 crore. The total loss, therefore, to the Central Revenues would be 26·01 crores.

Scheme of Distribution of Resources Examined.

Having examined this aspect of the problem we should now see how far the general scheme of distribution of resources between the Federation and its component units would in practice help in the satisfactory discharge of their respective duties. The first question in this connection is whether the plan provides the Federal Government and the units with adequate resources to perform their duties and allows for elasticity to meet unforeseen emergencies. So far as the Federal Government is concerned, it is clear that it should have adequate resources for the discharge of its functions. These functions are, under the proposed scheme, defence, foreign and political affairs, monetary policy and responsibility for loan and pensions charges, together with certain important functions, especially medical and agricultural research work, commercial intelligence and trade representation. We have seen in the foregoing paragraphs that in the event of Federation coming into being, and other factors remaining the same, there would be a huge deficit of about 27.00 crores if the Federal Finance Committee's plan was adopted, and one of 4.67 crores on the basis of actual budget figures for 1934-35 and 1935-36 with the retention of emergency surcharges. There appears, therefore, no reasonable prospect of presenting a balanced Federal Budget, unless

Alternatives to Meet Deficits.

(1) the deficit is met by additional taxation, or

(2) further sources of revenue are appropriated by the Federal Government at the expense of the Provinces, or

(3) large scale reductions and retrenchments are made in Federal expenditure.

Difficulties of Imposing Additional Taxes. The difficulties in the way of further increase in taxation are great in India. All authorities are, in fact, agreed on the point that the burden of taxation is already heavy. The match excise duty, on the imposition of which the Federal Finance Committee so much relied for balancing the Federal budget, and which, in the first year of its imposition, realised a revenue of 1.15 crores, has been included in the estimates for 1934-35 and 1935-36. So are the new excises on motor spirit, kerosene, silver and sugar included in those estimates. With regard to tobacco excise the Federal Finance Committee were themselves doubtful of its success and admitted that the duty in the near future could not be relied on to yield a substantial revenue.* The only resource thus left to the Federal Government is an increase in salt tax and it is doubtful whether, in view of the political implications involved, any popular Government would take that responsibility without risk of widespread disaffection. As it is, the excises on matches and kerosene have been extremely unpopular since their imposition, as they affect the poorest in a community whose average income hardly justifies the imposition of these "poor man's taxes." The suggestion to levy a Corporation tax or super tax on the income or capital of companies is not without its difficulties. In the first place it will have a restricted and uneven incidence on general business profits, for the reason that only a small proportion of the business of the country is carried on by registered companies and secondly, all the States may not agree to the tax, realised from companies subject to their laws, being appropriated by the Federal

* *Vide* Report of the Federal Finance Committee, paragraph 23.

fisc. The possibility of allocating to the Federal Government a special super tax on high incomes is worth consideration in this connection.

Provinces cannot Forego Further Sources of Revenue.

As regards appropriation of provincial sources of revenue, the mere suggestion is out of place. In the first place it is clear that in the contemplated Federation, the sphere of the Federal Government will be practically limited to services like defence and foreign relations which, by their very nature, cannot be controlled by Provincial Governments, while responsibility for all the nation building and beneficent activities like education, public health and agriculture etc., on which the social advancement and economic wellbeing of the people depends, will rest with the Provinces. It follows, therefore, that the Federal expenditure will have to be kept in check so as not to starve those services for which the Provincial Governments would be responsible. The Joint Select Committee admitted that " The provinces have rarely had means adequate for a full development of their social needs, while the Centre, with taxation at a normal level, has no greater margin than is requisite in view of the vital necessity for maintaining unimpaired both the efficiency of the defence services and the credit of the Government of India." * On the other hand " there are a few Provinces where the available sources of revenue are never likely to be sufficient to meet any reasonable standard of expenditure " † and will require substantial subventions from the Federal exchequer. Under these conditions when the provincial finances generally are already highly strained and their nation building activities are

* *Vide* Report of the Joint Select Committee, paragraph 245.
† *Ibid.* paragraph 246.

being starved, it is impossible to rely on any help from the Provinces.

Possibilities of Reducing Federal Expenditure.

The two ways as seen above being closed, the only thing left is to explore the possibility of reducing Central expenditure. The military budget promises greater scope because of the size of the amount involved. The Government of India hold that reductions in the military budget have already reached a limit where further reductions would be impossible without seriously affecting the size and the efficiency of the army. While placing budget proposals for 1935-36 before the Assembly, the Finance Member warned the members "that the large reduction in defence expenditure in recent years had been secured to some extent by emergency measures of a temporary character, and that the figure of Rs. 44.38 crores could not be regarded as representing a new permanent level of defence expenditure." The expenditure under this head is, therefore, expected to increase rather than decrease in the near future. Expenditure under civil heads has been reduced from 20.00 crores in 1930-31 to 16.82 crores in the estimates for 1935-36, an increase of 59 lakhs over the actual figure for the previous year, and it is held that the expenditure has been reduced to such a low level that it can hardly be permanently maintained.

Effect of Economic Depression.

At this stage it may be argued that the foregoing conclusions have been based on facts and figures pertaining to a period of abnormal economic depression, and that in the event of a general economic recovery the budgetary position would necessarily improve. In estimating the effect of such a reaction a number of other factors have also to be reckoned with. A

glance at the revenue figures of the past five years would show that the average revenue of the Government of India has been little affected by the depression. This is chiefly because drastic emergency measures have been taken to meet the Government's needs, and it would be a mistake to regard the average level of revenue for the past few years as a permanent one. In the special economic conditions available in India, it would take not only a general and very substantial economic revival, but also a long time before any appreciable results can be felt on the revenues so as to make the position secure.

India's Economic Position Insecure.

The precariousness of India's economic position may be realised from the present condition of its foreign trade. In order to meet its normal external payments, ranging from Rs. 60 to 70 crores annually, its balance of trade should be favourable to that extent. In the year 1932-33 exports of merchandise totalled Rs. 135.66 crores, while the imports were 132.27 crores, leaving a balance of trade in merchandise of Rs. 3.39 crores. On the other hand the transfers of funds on Government and private account during that year amounted to nearly 69 crores and the excess demand had to be met by export of treasure, mainly gold, to the value of Rs. 64.92 crores. Taking into consideration the condition of the world market for India's produce it is not probable that there will be a marked increase in exports, and if, in the year under review, no gold was forthcoming for export, the natural reaction would have been towards a reduction in imports to the extent of about 57 crores, and thus would have reduced the customs revenue by about one-third. Up to the year 1931, India

used to absorb gold and silver, to the value of about 38 crores annually to satisfy the well known needs of the people, and if this psychological factor comes into operation again, even to the extent of withholding from export gold remaining in the country, the effect on customs revenue, shipping and other trades would be very serious. It is obvious then that the prospects of an increase in revenue from economic recovery are far removed, and in forecasting the budgetary position of the Federation no reliance can be placed on this factor.

Workability of the Scheme: Overlapping Jurisdiction. Having examined the scheme so far, we should now see what chances there are for the Federal machine to run smoothly on the lines suggested. A close examination of the proposed plan of Federal Finance would show that it provides ample ground for the clash of interests between the Federal Government and constituent units to an extent that might endanger the successful working of the constitution. In the legislative field, a fertile source of clashes may be found, to quote a few instances, in the powers of both the Federal and Provincial legislatures to make laws with respect to any of the matters enumerated in "the Concurrent Legislative List," which contains subjects like marriage and divorce, successions, health insurance, factories, labour and trade unions regarding which the policy, in view of the peculiar conditions in India, may differ from Province to Province, and another source may be found in the powers of the Governor General and H.M.'s Government to interfere in strictly Provincial affairs.

The Factor of Uncertainty in Provincial Finance.

In the financial sphere also the prospect does not seem very promising. The Government of India Act allocates succession duties, stamp duties and taxes on income to the Federal Government, subject to the proviso that the latter may distribute the proceeds among the Provinces as may be prescribed.* The Provinces have come to consider the above mentioned taxes as properly belonging to them, and the public in the Provinces will feel that income which is reasonably theirs is being kept from them. The proportion of the above taxes which the Federal Government may, if at all, grant them will vary from year to year according to the needs of the Federal Government and the result will be that the finances of the Provinces will be working under the handicap of a very doubtful factor. With the inadequate resources at their disposal and the popular demand for more expenditure on beneficent services, the Provincial Governments will find it impossible to defend unpopular measures of economy or taxation. The Provincial Legislatures as well as the representatives of the Provinces in the Federal legislature will combine in their efforts to prove the impossibility of continued appropriation by the Federal Government of the proceeds of those taxes, and by restoring to obstructionist tactics may bring about a state of deadlock that may endanger the Federation itself.

Coming in of the States will Further Heighten the Tension.

At the same time the coming in of the States, on conditions suggested, will further intensify the strain on public opinion. The States have made their position abundantly clear that by joining the Federation they are not prepared to lower

* *Vide* Government of India Act, Secs. 137–138.

a position which has already been made worse by unjustified encroachments on their rights. Under the principle of *status quo* as put forward in the proposed scheme every State would join, on its own terms, a Federation that can only be considered solvent if the Provinces bear many of the burdens which the States would refuse to bear. This would give rise to a feeling of inequality of burdens among the Provinces on the one hand and on the other a state of constant uneasiness among the States which would look with the greatest discontent on the efforts, which the Provinces would naturally be prompted to make under those conditions, to equalise the apparent burden, although the real burden on the States, as we shall see later, would be actually heavier than that which they might be justly asked to bear.

Residuary Powers. Moreover, the Government of India Act leaves the position unsatisfactorily vague about the residuary powers of taxation. The Percy Committee, having attempted to give exhaustive lists of heads of taxation for Federal and Provincial Governments, admit that they are not exhaustive and that "the taxes included in all four lists overlap at various points." They go on to say: "We doubt the possibility of drawing up a complete and comprehensive list of taxes not included in the first three lists (Federal), and the definition of the taxes in all the lists, so as to avoid litigation resulting from a conflict of jurisdiction, must in any case be a matter of legal draftsmanship." * The Joint Select Committee have simply avoided the question as to who, the Federal Government or the units, should have the

* *Vide* Report of the Federal Finance Committee, 1932, paragraph 104.

power to impose taxes hitherto uncontemplated, and the Government of India Act is equally silent about it. The possibility of overlapping jurisdiction which the authors of the plan themselves admit, and uncertainty with regard to residuary powers of taxation will both provide prolific bases for embarrassing disputes between the Federal Government and the federating units.

Scheme Ignores Essential Factors.

It may be seen that in drawing up the Federal plan the authors of the scheme have failed to grasp the peculiar conditions under which the Federation is to be set up in India. Most Federations in history with only a few exceptions, like Canada and some of the South American States have been the outcome of centripetal forces, where a number of States joined together and relinquished part of their sovereignty to attain a common cause. So far as British India is concerned, it is still in the process of breaking down its unitary form of Government under strong centrifugal forces and striving to preserve its varied cultures and races in autonomous entities, while past experience has shown that public opinion in the Provinces is not sympathetic towards the Central Government. The danger of clashes occurring in Federations that are born of centripetal or other natural forces is well known in history and in the case of India, where those consolidating forces are wanting, the danger would be still greater. Common sense demands that the constitution should be drawn up in such a way as to avoid as far as possible conflict of interests between the centre and the constituent units : yet, as we have seen, the whole scheme is arranged in a way that makes such conflicts inevitable.

Thus our examination of the plan of Federal Finance as contemplated by the Government of India Act forces us to conclude that it is based on forecasts drawn in an atmosphere of complete unreality and cannot be relied upon, that it is not sufficiently elastic to help both the Centre and the units in the satisfactory discharge of their respective functions and that it does not eliminate causes for clash of interests and embarrassing disputes in future and that on the whole the plan of Federal Finance is fundamentally defective and in all probability unworkable.

CHAPTER X

IS THE SCHEME BASED ON SOUND PRINCIPLES OF FINANCE AND EQUITY?

Range of Government Expenditure. The activities of a Government with regard to Public Finance consist in the raising and spending of revenue—the amount raised depending on what it is required to spend. The question how far Government expenditure should be carried has been explained by the well-known precept that it should provide the maximum of satisfaction with the least sacrifice on the part of the citizens. But this precept of itself does not carry us far in solving the problem unless account is taken of the inter-actions of a number of other factors.

India's Irrevocable Obligations. Part of the Government expenditure arising from past contracts may be irrevocable and has to be met if the credit of the country is to be maintained. Such expenditure of the Government of India comprises its debt obligations and charges of the character of pensions and furlough payments which are definitely the first charge on the Government revenues. A closer investigation of the problem, however, would show that in the case of India the position is not so simple as it appears at the first glance. The above assertion is based on the assumption that contracts are entered into in the best interests

of the country, and are of a nature as to safeguard against undue wastage and drain on the country's resources. So far as the Public debt of India is concerned, a scrutiny of the past transactions of the Government of India would show that the position has been far from satisfactory. The total amount of loans in India outstanding on March 31, 1923, rose from Rs. 339.83 crores to Rs. 438.28 crores on March 31, 1935, and the amount of loans raised in England during the same period rose from £222.92 million to £323.57 million so that while the Indian Public debt in India increased by nearly 30 per cent., that in England increased by 45 per cent. In other words the financial policy of the Government of India during the period under review withheld from the people of India the opportunity of profitably investing capital to the extent of over £100 millions, and increased the foreign indebtedness of the country to that amount with proportionate increase in recurring loss of interest on capital, although it was possible to get loans in India at the same rate of interest as in England.

The Government of India Act, stipulates that on the establishment of Provincial autonomy "all powers vested in the Secretary of State in Council of borrowing on the security of the revenues of India shall cease," * but this has been qualified by certain provisos that adversely effect the force of this stipulation. One provision is that during the transitional period that may transpire between the commencement of Provincial autonomy and the establishment of Federation, the Secretary of State may, under Parliamentary regulations, contract sterling loans. Past experience has shown that

* *Vide* Government of India Act, Sec. 161.

the Government of India have persistently been partial to the promotion of sterling stock entailing a direct loss to India and the success of the stipulation contained in Sec. 161, will very largely depend on how the borrowing powers of the Secretary of State are utilised during the transitional period.

India's Claim to Tax on Superannuation Incomes.

Similarly with regard to pension charges, the question of the payment of tax on superannuation and other incomes earned by a large number of residents outside India, but chargeable to Indian revenues, has been decided in an inequitable manner. Under the proposed arrangements the whole of the tax on such incomes will not be realised by the Indian Government and would go principally to the British Exchequer instead.* Considering that these payments are a definite charge on her revenue, the tax should in equity belong to India and be leviable at the source.

It is, however, not impossible to tackle this problem in an equitable manner, once the principle of India's legitimate share in this class of tax is admitted. The scale of taxes on income in England is higher than in India and, in all probability, will remain so for a long time. Residents in the United Kingdom earning this type of income may continue to pay income tax at the present rate into the British Exchequer, but the amount of tax that they would have paid under the Indian system should be remitted to the Indian revenues, or alternatively the Indian portion of the tax may be deducted at the source. Another, and probably the more practical, method would be to apply the Rules of Dominion Income Tax Relief on such incomes. Under these rules, relief from the United Kingdom

* *Vide* Government of India Act, Sec 272.

Income Tax is granted where income which has borne, Dominion Income Tax has also borne, or is liable to bear, United Kingdom Income Tax. The rate at which such relief is calculated is either the Dominion rate of Tax or one half of the appropriate rate of the United Kingdom Tax, whichever is lower.

We may realise thus, that India's "irrevocable" obligations have accumulated to their present proportions under a Policy that was not always governed by the principle of maximum economic advantage to India and that the Government of India Act withholds from the people power to minimise the burden of these obligations which, as we have seen, are not incapable of being controlled.

Irrevocable Obligations Capable of Being Controlled.

Another type of expenditure that is subject to control and is not irrevocable may be of such a nature as not to allow for considerable economies due to special conditions of the country. In India expenditure on defence, judiciary and police may be considered as belonging to this class. These services are of an admittedly essential nature and reduction in expenditure cannot be carried too far, especially in the case of judiciary and police without jeopardising the peace and tranquility of the country. The point is whether it is possible to reduce expenditure on these services in the light of the above remarks.

Excessive Expenditure on Defence.

Expenditure on defence particularly needs such examination. In the financial year 1932-33, the sum of Rs. 50.37 crores was spent on defence out of the total gross receipts for the Central and Provincial Governments of Rs. 210 crores.* i.e.,

* In 1932-33, gross revenue receipts were Rs. 125·43 crores under

24 per cent. of gross revenue went towards the defence of India. In the United Kingdom for the same year the expenditure on Army, Navy and Air Force amounted to £103 million,* out of a total revenue of £745 million, so that it bore a proportion of 14 per cent. to the latter. It is evident that the burden for the upkeep of defence services was comparatively heavier in India than in the United Kingdom, and when it is borne in mind that in 1932-33, the British Army comprising a total strength of 467,000 men † cost £35.88 million while the Indian Army numbering only 254,354 ‡ entailed a cost of over £37 million,§ the conclusion forces itself on one's mind that there must be tremendous extravagance in the conduct of the Army department in India. This conclusion

Central heads and Rs. 84·34 crores for all the Provincial heads of revenue in British India.

* The expenditure was distributed as follows:

Navy	£50·01 million
Army	£35·88 ,,
Air Force	£17·10 ,,
Total	£102·99 ,,

† The establishment of the British Army in 1932 comprised:

The Regular Army	189,000
Army Reserve	124,500
Supplementary Reserve	17,500
Territorial Army	136,000
Total strength of effectives	467,000

‡ The strength of the Indian Army, excluding non-combatants, in 1933 was

Commissioned Officers (British and Indian)	10,988
British, other ranks	57,903
Indian, other ranks	142,256
Indian Reservists	43,207
	254,354

§ The sum of Rs. 50·37 crores converted into sterling at the rate of 13⅓ rupees to the £ equals £37·8 million, and deducting from this £400,000, the cost of the Royal Indian Marine and India's subsidy to the British Navy and £80,000 the cost of India's Air Force, the expenditure on the Indian Army comes to about £37.32 million.

gains further strength when it is remembered that the Indian soldier costs much less than a British soldier, that more than three-quarters of the strength of the Army consists of Indian soldiers, and that the equipment of the British Army cannot be considered as inferior to that of the Indian Army. Taking the above comparisons into consideration, and other things being equal, it should be possible to bring down expenditure on the Army roughly by about 10 to 15 crores.

Optional Expenditure.

Other expenditure not coming under the above categories may be classed as optional. Some items under this class may be very important such as education and public health, but their nature is such that large reductions in budget allowances would not effect the country's credit or its peace and tranquillity, although such action may withhold from the public some very urgent amenities of life. On the other hand such expenditure is capable of being indefinitely expanded and therefore in distributing resources among different uses the precept of "the greatest good of the greatest number" would provide a useful principle for guidance. It has been maintained that the financial policy of the Government of India was not always guided by this principle; but, to limit our remarks to the scheme of proposed reforms, we may profitably quote one relevant instance.

Ecclesiastical Department.

Under the Government of India Act, the special functions of the Governor-General include among others the control and management of the ecclesiastical affairs, and its cost, that may extend to Rs. 42 lakhs a year, will be among the first charges upon the revenues of the Federation. Every rupee out

of these 42 lakhs may be regarded as made up of parts contributed by the Indian tax-payers of all classes and denominations, and should in equity be spent for the benefit of the majority of them. But this expenditure can at best provide satisfaction to less than 2 per cent. of the population. The Act, by making statuary provision for the maintenance of the department at public expense, forces upon India an expenditure which does not promise the greatest good of the people. In the United Kingdom, where the majority profess the Christian faith, the tax-payer has for a long time ceased to pay for the cost of this kind of service and in India, where the Christian population is less than 2 per cent.* and the real burden of the taxation is much heavier, this expenditure on the part of the Government is much more unreasonable. Such expenditure should, more properly be met, as in England and other advanced countries, by voluntary contributions. In fact, statutary provision in this respect, is not only iniquitous, but actually harmful as it would perpetuate the feeling that the Government of India forces the public to bear burdens that are not in its interests.

Principles Determining Total Cost of Administration. With regard to the aggregate cost of administration, Prof. Pigou postulates that "expenditure should be pushed in all directions up to the point at which the satisfaction obtained from the last shilling expended is equal to the satisfaction lost in respect of the last shilling called up on Government service." † From this it follows that expenditure should be so

* Of this 2 per cent. less than half are adherents of the Anglican Church, which alone receive the benefit of this expenditure; the other denominations, such as the Roman Catholic Church in India. being entirely self-supporting.

† Pigou, "A Study in Public Finance," page 52.

controlled that it expands proportionately with an increase in the aggregate income of the community, that the development of new sources of profitable investments such as Government monopolies make it possible to raise more revenue and that the expenditure is " larger the less even is the distribution of income among the citizens and the more progressive is the revenue scheme" that the Government decide to employ.

Increase in Aggregate Income Unlikely.

The average income of the Indian community being extremely low and the marginal sacrifice involved in the payment of poor man's taxes like duties on salt, matches, kerosine oil and cotton fabrics, already excessive, it will take a very substantial increase in the general scale of incomes, and this seems far from right under the existing conditions, before it may be possible to expand expenditure considerably on this basis. Further opportunities for the development of Government monopolies, also are very restricted and railways and irrigation works on the whole are earning incomes only to the extent of meeting their working expenses and interest on capital.

Scope for Development of Monopolies Limited.

The last assumption in the previous paragraph promises some help as the inequalities of incomes in India are well known. An intelligent scheme of progressive taxation may affect transference of purchasing power from the richer few to the collective purse and eventually to the needy, directly by way of actual services like education and medical aid, or indirectly by way of reducing the incidence of taxation on the poorer sections.

Inequalities of Incomes in India.

Attitude of Government.

Experience has shown that though the Government of India has very often utilised the above principle in raising more revenue, it has not at the same time provided relief to the poor. In fact there have been instances in which, when relief was possible, it was given actually to the richer sections of the community. In 1931, a number of surcharges on income tax and super tax, tax on low incomes and cuts in pay of higher Government servants were imposed, to meet heavy deficits in the Budget, and heavy duties on matches, kerosine oil and sugar, were later imposed in addition to an increase in duty on salt and other exports and imports. The Budget forecasts for 1935-36, made it possible to dispose of a surplus of Rs. 1.42 crores and the Finance Member of the Government of India, in placing the budget before the Legislative Assembly, laid down the principle that "relief must come first in restoring emergency cuts in pay, and secondly in taking off the surcharge on income tax" and proposed an all round reduction by one-third on surcharges on income tax and super tax as well as on taxes on low incomes.

An Instance Quoted.

The Legislative Assembly did not approve of this proposal, but decided to remove tax on low incomes altogether, to retain surcharges on higher incomes and to give relief to the poor by reducing duties on some necessaries of life. This attitude, however, did not meet with the approval of the Government of India and the Governor-General in the exercise of his overriding powers, sanctioned the enforcement of the Bill as proposed by the Finance Member, so that not only was a popular opinion rejected, but an inequitous scheme of taxation was arbitrarily

maintained. What happened in March, 1935, may happen again when the proposed Federation comes into being. The Government of India Act empowers the Governor-General under certain circumstances to enact Legislative Acts in his own discretion if it appears to him that such action is essential to enable him "satisfactorily to discharge his functions," * and provides no remedy against the assumption of dictatorial powers by the Governor-General in face of consistent and repeated wishes of the Legislature.

Principles Governing Raising of Revenue.

With regard to the principles governing the raising of revenue, we need not here enter into details of essential considerations that should regulate a just scheme of taxation. These properly belong to the theory and principles of Public Finance and form such an important feature of the scientific investigations of modern times. So far as broad principles are concerned, we may do no better than quote Prof. Pigou who says that, "There is general agreement that all of a Government's activity should be regulated with a view to promoting in the highest possible degree, the welfare of its citizens. This is the touchstone by which the whole of its legal system—and its tax laws are, of course, a part of its legal system—must be judged. The day in which the welfare of one category of citizens could plausibly be ranked above that of another is past. Nobody would venture to claim now that a smaller amount of welfare accruing, say, to a nobleman should be preferred to a larger amount that might be made to accrue to a peasant. So far as political theory is concerned, maximum aggregate welfare is everywhere accepted

* *Vide* Government of India Act, sec. 44.

as the right goal of government; and when, as of course often happens, actual Governments pursue a different goal, their practice may be more or less plausibly explained away, but is never openly defended. In the special field of taxation this general principle is identical with the principle of least sacrifice. Its validity appears to be given directly in intuition." *

Principle of "Least Sacrifice" Often Overlooked. Some aspects of the question have already been touched upon in connection with our study of the policy of public expenditure, but we may consider here usefully one or two other points, with reference to the Government of India's policy of raising revenue, that require some attention. We have seen that their financial policy was not always governed by the principle of "maximum aggregate welfare" of the people while in the field of taxation the principle of "least sacrifice" has very often been overlooked and the Government of India Bill promises little hope of these inequalities being rectified. Since 1931, several indirect taxes have been imposed on a number of necessaries of life in disregard of the wellbeing of the people and the anticipated increase in public expenditure in view of the proposed Federation, gave the Government of India an excuse for imposing further duties like those on matches, sugar and kerosine oil. The position thus is that while the burden on the poorest sections of the community has been constantly increasing, that on the richer section has not been proportionately adjusted.

* *Vide* Pigou, "A Study in Public Finance."

Unjustifiable Claim of Bengal for Subvention.

The case of Bengal is an instance in point. That Province has for some years been experiencing heavy budget deficits* and has, consequently, been demanding some kind of special treatment with regard to the distribution of resources between the Province and the Central Government. A case has been made out for that Province for the allocation of a substantial share of Income Tax imposed on incomes earned in Bengal, the whole of which under the existing arrangements is appropriated by the Central Government. The principle of subventions, which is one of the principal methods for securing equalisation of conditions between federating units, may with benefit be resorted to only when it has been established that the unit demanding such relief in spite of having exhausted all its resources of revenue, common to other units, is yet unable to meet its normal requirements.

A scrutiny of the revenue figures for Bengal, which comprises the most fertile part of India, would show that receipts under "land revenue"

Inequalities of Agricultural Incomes in Bengal.

are remarkably low as compared with other Provinces,† the average land revenue per million acres of cultivated land being lower only in two Provinces, viz., Bihar and Orissa and the Central Provinces and Berar. So far as the Provinces of Bihar and Orissa are concerned, the reasons for low revenue

* The financial position of Bengal for the two years 1932–33 and 1933–34 was as follows:

	1932–33	1933–34
Total expenditure charged to revenue (in lakhs of rupees)	11, 12·2	11, 30·6
Total revenue receipts (in lakhs of rupees) . . .	9, 52·8	9, 11·5
Deficit	1, 52·8	2, 19·1

† See note at foot of next page

with respect to the northern part are similar to those of Bengal, while with regard to the southern part, the average is reduced by inclusion in the total cultivated area of vast tracts of very poor land in Chhota Nagpur and Orissa. Land in the Central Provinces and Berar has a much lower productivity than other Provinces due to the thinness of soil and difficulty of irrigation. The reason for this low land revenue in Bengal and Bihar is to be found in its land revenue system. Under the Zemindari system of U.P., Punjab and other Provinces, land revenue represents 35 to 50 per cent. of the rent derived by the landlords from their tenants and, by reason of its being subject to revision periodically, has been enhancing with the rise in the price of agricultural produce. The system in Bengal and Bihar, however, which was introduced by the British at the close of the eighteenth century, with the intention of converting large farmers of revenue in Bengal into landlords occupying a position similar to that of land owners in England, is not so elastic. Under this system the amount of revenue was fixed in perpetuity, so that, while the general level of prices has gone up many fold since 1795,* the land revenue has remained the same. Bengal

* The Permanent Settlement was introduced in Bengal by Lord Cornwallis in 1795.

The position for the year 1932–33 in various Provinces is set out in the following table. The area figures are those obtained in 1931–32.

Province.	Cultivated area including fallow in acres.	Gross land Revenue in lakhs of Rs.	Revenue per million acres (in lakhs).
Bengal	28,868,610	3, 15	10·9
Bihar and Orissa	30,982,866	1, 79	5·7
United Provs	38,214,545	5, 83	15·3
Punjab	30,770,680	4, 56	14·8
C.P. and Berar	28,793,402	2, 53	8·7
Bombay	42,976,549	4, 82	11·2
Madras	44,197,285	7, 68	17·4
Assam	7,563,313	1, 13	15·0

is at present a country of big landed proprietors, whose huge incomes do not bear the burden of taxation to the same extent as similar incomes in other Provinces. The total rental in Bengal has been estimated at about Rs. 16 crores, and if temporary settlement was introduced, the land revenue, even at the minimum scale of 35 per cent. of the rental, would be Rs. 7 crores instead of the present amount of a little over Rs. 3 crores.

So long as this inequality of burdens exists, the taxpayer in other Provinces may not approve of the payment of huge subventions to Bengal without a feeling of injustice. A revision of land revenue assessment to equalise the burden is the evident remedy, but in view of the Government's pledge it may not be possible to tackle the problem in this manner. As an illustration, let us imagine that an estate in Bengal had, in 1795, a rental value of Rs. 1,000 and land revenue on it was assessed at Rs. 400 per annum on a 40/60 basis and that, in 1935, its rental had increased to Rs. 3,000 the land revenue remaining the same. Under normal conditions the revenue would have been proportionately increased to Rs. 1,200 and thus the unearned portion of the land owner's income would apparently be equal to Rs. 800, to which the Government may lay its claim. This pre-supposes that the property remained in the same hands throughout, for if it was sold at a later date, the capital value would have been determined on the basis of the current rate of interest, on the total net income of Rs. 2,600.

How the Difficulty may be Remedied.

The difficulties in the way of re-assessment of land revenue in Bengal and Bihar are therefore great, and the problem has to be tackled on different lines

altogether. In British India, agricultural incomes are exempt from Income Tax for the reason that such incomes already pay a high rate of duty by way of land revenue. There is some justice in the application of this principal in areas where land revenue is subject to periodical assessment, but in permanently settled areas it does not retain the same strength. Most of the land in these areas is divided among big hereditary magnates, whose present huge incomes are quite out of all proportion to their real tax burden, and it would be only fair that they should bear that burden to a greater extent than they do now. In this connection the question of taxing larger agricultural incomes, somewhat on the lines of the present super tax,* may be usefully considered. Such a tax will not only remedy the financial difficulties of Bengal and Bihar to a great extent, but would also enable the Federal Government to give help, if at all, to Provinces which really need it.

The Federal Scheme Advocates Inequitable Principles of subventions to Provinces.

Yet the Joint Select Committee, have ignored the fact that a subvention from Federal revenues can be justified, not by reason of a deficit bugdet, but only if a Province, having exhausted its sources of taxation in common with other Provinces, is unable to meet its normal demands and have advocated a "special treatment" of Bengal in its claim for a share in jute export duty, on the argument that a Province is justified in claiming a share of the proceeds from

* There is no super tax under the present rules on incomes below Rs. 30,000. In the case of every individual or unregistered firm, for every Rupee of the first Rs. 20,000 of the excess over Rs. 30,000 the rate is ¾ anna in the Rupee, for the next Rs 50,000 it is 1¼ anna and so on in an ascending scale.—*Vide* Niyogi, "The Evolution of the Indian Income Tax," page 234.

duty on a commodity that it produces.* This line of reasoning is a dangerous one, for once the principle has been acceded to in one case it may be difficult not to entertain the claims of other Provinces, all of which produce some commodities that are exported and are subject to duties, and if the Provinces manage to show deficits over a number of years, it may entail a wholesale re-shuffling and re-adjustment of Federal Finances. In fact, Assam has already put forward a similar claim to a share in the proceeds of the excise duty, now a Central head of revenue, on petroleum produced in that Province, although in this case the claim for relief may be more justified than that of Bengal. So far as Bengal is concerned the treatment recommended by the Joint Select Committee and acceded to is, as we have seen, decidedly "special" but not equitable. The taxation policy of the Government of India has very often ignored the principle of "equal sacrifice among similar and similarly situated persons" and the scheme of proposed Reforms does not give hope of any betterment in the equalisation of the tax burdens.

Inadequacy of Provincial Resources.

The next point to be considered is whether the scheme provides adequate resources to the Federating units to enable them successfully to carry on their nation building activities. The Joint Select Committee, commenting on the existing system of finance in British India, said that "from the point of view of expenditure, the essentials of the positions are (and no change in this respect is to be expected)

* The principle has actually been recognised in practice. A sum of Rs. 1·69 crores out of the proceeds of Jute export duty was transferred to Bengal from Central Revenues in 1934–35, and the Budget estimates for 1935–36 provided for transfer under this head of a sum of Rs. 1.79 crores.

that the Provinces have an almost inexhaustible field for the development of social services " and that they " have rarely had means adequate for a full development of their social needs." The Committee seem to have arrived at no constructive plan to remedy the position beyond that of suggesting that there was " little or no prospect of the possibility of fixing a higher percentage than 50 per cent." * of the Income Tax proceeds to be shared by the Provinces, and the Government of India Act has recognised the principle of distribution between the Federal Government and the Units, of receipts from Income Tax, salt, excise, export duties and certain succession and stamp duties. We have seen how unreal are the forecasts on which the scheme is based and so long as the general plan of administration and finance remains in its present form or altered according to the proposed scheme, it is very doubtful whether at any future date, that can reasonably be foreseen, it would be possible for the Centre to forego a substantial portion of revenue under these heads.

The social needs of the Provinces may be realised from a comparison of the amounts spent in 1933-34 in different Provinces on Education and Public Health given in the following table :

Province	Population 1931	Gross Revenue 1933-34 in lakhs of Rs.	Amount Spent on Education and Pub. Health	Per Capita Expenditure of Educ. and Pub. Health
Bombay . .	21,930,601	18,73.72	2,54.32	Rs. 1.2 ans.
Madras . .	46,750,107	22,46.66	3,73.16	13 ans.
Bengal . .	50,114,002	12,02.78	2,18.77	7 ans.
U. Province .	48,408,763	11,23.06	2,44.60	8 ans.
Punjab . .	23,580,852	12,38.46	2,22.12	15 ans.
Bihar and Orissa	37,677,576	5,95.02	1,18.90	5 ans.
Central Provinces	15,507,723	5,80.29	67.52	7 ans.
Assam . . .	8,622,251	2,48.59	49.65	9 ans.
Total for British India including Burma . .	271,526,933	209,55.2	17,88.4	10 ans.

* *Vide* Report of Joint Select Committee, paragraph 252.

It will be evident how inadequate is the expenditure on these essential nation building services. As compared to this, the budget grant for these two services in the United Kingdom for the year 1933-34, was over £73 million * out of the total state receipts of £744,791,000 so that the former figure bore a proportion of nearly 10 per cent. to the latter and gave an expenditure approximately of £1 15s. per head of the population on these services. In British India, on the other hand, expenditure in 1933-34, on Public Health and Education was about 8 per cent. of the total receipts while the cost per head of population was less than a shilling. The effect of this very low expenditure on the population in general was further reduced because of the discriminatory manner in which these services were rendered. For example in 1933-34, in the Province of Bengal, 11 per cent. of the total expenditure on Education was incurred for the benefit of one-thousandth of the population.†

* The actual figures for 1933–34 were:

	£	£
Board of Education	42,061,901	
Museums	325,473	
Scientific investigation	197,573	
Grants to Universities and Colleges	1,890,000	
Public Education and Museums in Scotland	6,730,025	
		51,204,972
Ministry of Health	19,200,445	
Dept. of Health for Scotland	2,832,265	
		22,032,710
	Total	£73,237,682

† Education of Europeans has been treated as a reserved subject since the inauguration of the Montagu-Chelmsford Reforms and is outside the legislative control of the Provincial Councils. In 1933–34 expenditure on general education in Bengal was Rs. 1,15,75,000 while expenditure on European education was Rs. 12,54,000. Out of a total population of over 50 million in Bengal the number of Europeans and Anglo-Indians according to the 1931 census was 50,587. The benefit derived by these communities was thus more than a hundred times that derived by an average Bengali from the Government's activities with respect to Education.

Discrimination in Social Services.

This invidious distinction is given statutory sanction by the Government of India Act which provides that unless a Provincial Assembly resolves otherwise, by a clear majority of three-fourths, all grants for the benefit of the Anglo-Indians and European communities in aid of Education shall, after the inauguration of Federation, not be "less in amount than the average of the grants made for its or their benefit in the ten financial years ending on the 31st day of March, 1933." *

Position in States Better.

As compared with British India, the position in the Indian States is a good deal better. In the following table the proportion of expenditure on Education and Public Health is shown with regard to a number of States taken indiscriminately from different parts of India.

1. State	2. Population	3. Gross Revenue	4. Expenditure on Education and Public Health	5 Per cent. of 4 to 3	6. Per Capita expenditure on Educ. and Pub. Health
Jodhpur . (1932–33)	2,125,982	1,40,15,921	10,97,000	8%	Re. 0 8 ans.
Wankaner. (1930–31)	44,280	8,26,427	49,166	6%	" 1 2 "
Baroda . (1932–33)	2,500,000	2,70,10,000	43,05,000	16%	" 1 11 "
Indore . (1929)	1,151,578	1,36,06,200	12,15,791	12½%	" 1 1 "
Bhopal . (1927–28)	692,448	48,13,000	5,64,000	12%	" 0 9 "
Sangli . (1932–33)	258,442	15,48,175	1,98,398	12%	" 0 12 "
Cochin . (1932–33)	1,205,016	1,05,57,328	20,52,465	19%	" 1 10 "
Mysore . (1933–34)	6,557,302	3,42,87,244	61,31,400	18%	" 0 15 "
Travancore (1933-34)	5,095,973	2,34,82,000	57,30,000	24%	" 1 1 "

It may be noted that, under existing disabilities,

* *Vide* Government of India Act, sec. 83.

about 30 per cent.* of the legitimate revenues of the States go to increase the revenues of British India, and yet the former manage to spend more on beneficent services than the latter. The natural conclusions that may be derived from the position are, firstly, that the attitude of the States' Governments is more sympathetic towards the social services than that of the British Indian Governments and the invidious distinctions that are a feature of British Indian administration are not found in the States, and secondly, that there is not so much administrative waste in the States as in British India, which fact enables them to find comparatively larger funds for their nation building activities.

So far as sources of revenue are concerned, we have seen that under the proposed scheme they are totally inadequate for the expanding needs of the Provinces and the chances of help from Federal Revenues are very doubtful. The door for the stoppage of administrative waste also is closed to them. The chief waste is through the proverbially high scale of salaries paid to public servants in India, and the Government of India Act reserves all matters concerning conditions of service for the higher services to the Secretary of State. Even the strength of these services has to be prescribed by the Secretary of State so that it will be beyond the power of the Provincial Assemblies to reduce the scales of pay in case of future employees or the cadre of the services in order to release more funds for the beneficent activities.

Thus our examination of the scheme of Reforms

* We have shown in a previous chapter that the amount realised by the revenues of the Government of India from the States comes to nearly 14 crores a year. The actual aggregate revenues of all the States in 1931 amounted to Rs. 46 crores.

as contained in the Government of India Act, shows :

(*a*) That the provisions of the Act with regard to the promotion of public loans are not in the best interests of India.

(*b*) That it does not provide a remedy for the loss incurred by the Indian Exchequer from taxes on incomes received abroad but charged to Indian revenues.

(*c*) That there is a large wastage in the conduct of the Army Department in India and the Act withholds from the Legislature power to control the military expenditure.

(*d*) That the Act forces on India certain types of expenditure that are not for the greatest good of the greatest number.

(*e*) That the scheme of public expenditure is too rigid to allow for an increase or decrease in aggregate expenditure with a rise or fall in the average income of the community.

(*f*) That the scheme of taxation is inequitable as it does not promise any relief to the poorer sections of the community, but advocates imposition of further burdens on them, without providing for an equitable transference of purchasing power from the richer sections.

(*g*) That it advocates unfair principles of subsidising the Provinces from Federal Revenues, whereby purchasing power will be transferred to Provinces that do not deserve it by reason of the fact that there is great unevenness of incomes in the Provinces and where the incomes are at the same time concentrated in the hands of a few.

(*h*) That the scheme does not provide adequate resources for the Provinces generally for carrying on their nation building activities.

(*i*) That the Act perpetuates invidious distinctions and is partial to certain categories of citizens.

(*j*) That it withholds power from Provincial Legislatures to stop wastage and extravagance in the conduct of the administrations of the Provinces.

And that on the whole the scheme ignores the generally accepted principles of public finance and provides for an inequitable distribution of burdens and resources between the Federation and the units and also as between different sections of the community.

CHAPTER XI

DOES THE PROPOSED PLAN PROVIDE REAL REMEDIES FOR INDIA'S DIFFICULTIES?

In the previous chapters we examined the proposed Federal plan from the points of view of workability and equity. We should now see how far the plan is conducive to the economic well-being of the people of India as a whole, and in order to appreciate the real position it would be useful to examine it in the light of the following test questions:

(1) Does the proposed plan provide for the prevention of the drain on India's actual and potential resources?

(2) Does it provide maximum scope for the economic development of India by conserving its moral and physical capabilities and the removal of handicaps imposed by external interests?

(3) Does the scheme of reforms transfer adequate power to the Indian Legislatures to carry on unhindered their efforts to improve the economic efficiency of the people?

Question 1.—In Chapter VIII, we have shown how from the beginning of the British occupation of India up to the present time, the country has been subjected to foreign exploitation to the detriment of the well-being of its people. The continuous loss to India of a large proportion of its national

dividend, that would otherwise have gone to ameliorate the general standard of welfare, has been brought about, as we have seen in the following ways.

(*a*) Through the Government of India's policy of encouraging external loans the country's foreign obligations have been increasing annually.

(*b*) The Government of India has encouraged the employment of a large number of non-Indians in public services on salaries that are several times higher than those that would have been given to natives for similar services. A greater part of these salaries and the whole of the pensions earned by these men are spent abroad and in addition to this, India loses even its legitimate share of Income Tax on many of these incomes.

(*c*) A very large number of outsiders, both British subjects and foreigners are earning incomes in the country not only without any restrictions, but very often under the patronage of the Government of India. Thus India loses directly, as part of their earnings is sent abroad, and indirectly by proportionate loss in the opportunities of employment to Indian nationals.

(*d*) A very large proportion of the business and industry of the country is in external hands, the profits of which are irretrievably lost to India.

Loss due to Employment of Non-Indians.

Points (*a*) and (*b*) have been touched upon in another connection in a previous chapter and we have seen that the proposed scheme of Reforms does not provide any remedy to these difficulties. With regard to the employment of non-Indians in public services, the Joint Select Committee working on the premise that it was " the interest of India that must be considered above all " imagined themselves

"convinced that India for a long time to come will not be able to dispense with a strong British element in the services," * and the Government of India Act has provided all possible safeguards to maintain that strength. All matters connected with the conditions of service of the higher civil and military services, in which European British subjects predominate,† shall remain outside the authority of the Indian Legislatures and even the strength of these services shall be prescribed from time to time by the Secretary of State.‡ As a result of these stipulations this type of drain on India's resources would go on unchecked for an indefinite period.

Principle of Reciprocity in Trade and Occupations.

Points (*c*) and (*d*) require some attention. The Government of India Act exempts a British subject domiciled in the United Kingdom from the operation of so much of any Federal or Provincial law as would impose on him "any disability, liability, restriction or condition in regard to travel, residence, the acquisition, holding, or disposal of property, the holding of public office, or the

* *Vide* Report of the Joint Select Committee, paragraph 275.

† The Joint Select Committee in their report, paragraph 277, referring to the All India services, stated "the composition and total strength of these services on 1st January, 1933, were as follows:

	Europeans	Indians	Total
Civil Service . . .	819	478	1,297
Police	505	152	665*a*
Forest Service . . .	203	96	299
Service of Engineers . .	304	292	596
Medical Service (Civil) . .	200	98	298
Educational Service . .	96	79	175
Agricultural Service . .	46	30	76
Veterinary Service . .	20	2	22
	2,193	1,227	3,428

a Including 8 officers who had not been classified in either category.

‡ Government of India Act, sections 240 to 251.

carrying on of any occupation, trade, business or profession" in India, so long as Indian subjects of his Majesty domiciled in British India are not subjected to similar restrictions in the United Kingdom.* The principle of reciprocity underlying the stipulation under reference appears at first sight to be a laudable one. In practice, however, its effect will be highly unfair and disadvantageous to India. So far as public services are concerned. India gives employment to at least 75,000 European British subjects † while there are hardly any Indians similarly employed in the United Kingdom. With regard to professions and other occupations, the number of European British subjects earning incomes in India is far greater than that of Indians in the United Kingdom.

False Application of the Principle.

The position may be roughly realised by comparing the number of the domiciled citizens of one country residing temporarily in the other. In 1931, the number of European British subjects in India was 155,555, while that of Indians in the United Kingdom was less than a thousand. If we assume that these people derived their incomes principally from the country they were temporarily living in, we may say that the advantage derived by the United Kingdom through services and occupations from India was over 150 times the advantage derived by India from the United Kingdom through the same sources. We have left out of account students and other Indians living in the

* Government of India Act, section 111.

† The sanctioned strength of the British troops and officers in India is 68,900. The number of European British subjects employed in All India Services in 1933 was 2,193, and there were more than 3,000 European British subjects employed in other public offices.

United Kingdom, numbering over 2,000, who were not earning any income in the United Kingdom, but were on the other hand spending their own incomes derived from India.

Necessity for Change.

The accepted idea of reciprocity in the international political practice of modern times is that, as among two countries, there should be real equality of advantage gained by the nationals of one country from the other and this is usually brought about by equalising the number of the nationals of one country employed in the other. In the United Kingdom, for example, this principle is followed with regard to the employment of the nationals of most of the European countries and a similar usage has been adopted by nearly all the British Dominions. These countries have been obliged to place restrictions on promiscuous earning of incomes by outsiders within their territories on account of their domestic economic difficulties. It is needless to say that these difficulties exist in a much more acute form in India and this fact makes the case stronger for a recognition of India's right to equalise the material advantage as between India and the United Kingdom. The Government of India Act, however, totally denies this right to India and aims at perpetuating the inequality.

Reciprocity in Business and Industry.

Similarly with regard to business and industry, the Government of India Act lays down a number of injunctions that are definitely unfair to India. According to one provision, companies incorporated in the United Kingdom shall be considered to be carrying on their business in India as if they were incorporated in India.* Another enjoins that " no

* Section 113, Government of India Act.

ship registered in the United Kingdom shall be subjected to treatment which is discriminatory in favour of ships registered in British India,* unless British Indian ships are subjected to similar treatment in the United Kingdom.†

Necessity of Discrimination in India.

We have seen that a very large proportion of the business and industry of the country is in external hands and the loss through business profits and opportunities of employment is great. To remove the appalling poverty of its people, India will have to guard against this form, amongst others, of wastage of the country's resources by restricting external business enterprise in the country and by developing instead its own industries to the fullest extent under purely Indian hands. It is evident that in doing so some kind of discriminatory treatment will be necessary, at least in the earlier stages, so as to enable the infant industries to compete with the superior resources and long business traditions of the outside firms. Yet the provisions of the Government of India Act, e.g., those in regard to companies and ships quoted above, have been designed in a manner so as to make it impossible for India to do so.

Policy of Free Trade.

Question 2. The industrial policy of the Government of India, in the past, has been determined primarily by one motive, viz., of promoting the interests of British trade and industry at all cost, and has sometimes followed a course that was advantageous to other foreign countries rather than of benefit to India. During the half century preceding the Great War, it was governed by the avowed

* Section 115, Government of India Act.

† It is interesting to note, in this connection, that so far no ships registered in British India have been known to ply in English waters.

principle of Laissez Faire and Free Trade. These principles were utilised solely to help the principal British industries * and capture the Indian market for them. Under the principle of equal competition, it was considered wrong for the Government to encourage Indian industries and this policy was supported by the argument that governments should not interfere in spheres that belong wholly to private enterprise. It was evidently impossible for the new Indian industries to thrive against competition with the well established British industries and in many cases, as for example, with regard to the cotton industry and shipping, actual handicaps were imposed. On the other hand, it is interesting to note that the policy of Laissez Faire in India was adhered to only in so far as it helped in capturing the Indian market for British products and crippling Indian industries, but whenever it did not suit British interests it was departed from without hesitation. A typical example is to be found in the attitude of the Government towards the Tea industry which was given all possible encouragement by the Government. The industry happened to be owned and managed by European British subjects.

Loss to India Under Policy of Free Trade.

The result was that while other countries in the world were building up their industries under a protective policy, India could not develop her industrial capabilities. During the war, when the European countries were busy in their belligerent activities and could not maintain the export of manufactures, there was a great chance for industrial development in India. But India was so hopelessly unprepared that it could not avail itself of the opportunity, which was

* For example, the Cotton and Iron and Steel industries.

promptly taken up by the already organised industries of the United States of America and Japan. And though with the return of normal conditions, exports from Europe recovered to a certain extent, these countries had acquired too strong a hold on the Indian market to enable the United Kingdom and other European countries to regain their pre-war position. Thus the short sighted industrial policy of the Government of India, which was in the first instance directed towards the advancement of British interests and was definitely detrimental to Indian interests, resulted by force of events in loss to both.

Protection. This state of affairs, however, forced the Government to reconsider its industrial policy. The Joint Select Committee, which considered the Government of India Bill of 1919, recognised India's right to determine her own fiscal policy and recommended that " the Secretary of State should as far as possible avoid interference on this subject.* The Indian Fiscal Commission of 1922, came to the conclusion that " the fiscal policy best suited for India is Protection " and a limited form of protection was sanctioned by the Government of India in 1923. Among the conditions which an industry had to fulfil in order to justify a claim for protection the following were declared as essential :

(1) The industry claiming protection should be one that possesses natural advantages in the shape of an abundant supply of raw material, cheap power, an efficient supply of labour and a large home market.

(2) The industry should be of a nature that

* Report of the Joint Select Committee on the Government of India Bill, 1919, page 11, clause 33.

without the help of protection, either would not develop at all or would not develop so rapidly as was desirable in the interests of the country.

(3) The industry should be one that would eventually be able to face world competition without protection.*

Qualified Protection Ineffectual.

These conditions made it practically impossible for most of the Indian industries to claim from Government an adequate measure of protection, and later, the External Capital Committee of 1925, recommended the continuance of restrictions on the Governments' freedom of action in granting bounties and subsidies to Indian industries that might compete with British industries or industries worked by external capital in India.† The retrograde nature of the fiscal policy of the Government of India can be very well realised when the position is compared with the industrial development of other countries in recent years under a strong protectionist system. Even in the United Kingdom, industries that could hardly be considered to possess natural advantages, were given legislative protection, either to make the country more self-sufficient or to create more work for the unemployed.‡ But in India where poverty and unemployment were to be found in a most acute and extensive form, the Government forced on the country, on pretence of liberalism and impartiality, a policy that was injurious to the best interests of India and had even been given up by the Home Country.

* *Vide* Report of the Indian Fiscal Commission, 1921–22, paragraph 97.

† *Vide* Report of the External Capital Committee, page 15.

‡ For example, the motor car, beet sugar, artificial silk and dye industries were, before the adoption of the General Tariff, given special measures of protection, either through protective tariff or by direct subsidy.

Subsidising of Industries.

The Government of India Act, further deteriorates the position in this respect by making certain provisions that would make it impossible for the infant industries of India to get any practical advantage through Government bounties or subsidies. It lays down that any company incorporated in the United Kingdom and carrying on business in India "shall be eligible for any grant, bounty or subsidy payable out of the revenues of the Federation or of a Province for the encouragement of any trade or industry to the same extent as companies incorporated by or under the laws of British India are eligible therefor." * This provision makes the effect of any protective help by way of Government subsidy or bounty to Indian industries † entirely nugatory.

Advantage Nullified.

The chief aim of granting a Government bounty or subsidy to an industry is either to enable a new industry to establish itself firmly or to help it in tiding over a difficult period in face of external competition. We have noticed that a very large proportion of the trade and industry of the country is controlled by British interests which enjoy a great advantage over the new industries owned and controlled by Indians, in their superior organisation and resources apart from the partial treatment that they have received from the Government. The interests of the country require that India's industries should be fully developed and firmly established and it may be necessary to subsidise them in order to equalise the advantage as

* Government of India Act, section 116.

† By "Indian industries" we mean industries that are worked and owned by Indian citizens and the profits of which are retained in the country.

between the Indian and British industries. But when an external industry, with whom a local industry is competing, is equally subsidised, the external industry, with its superior resources, gains an advantage over the local industry. The object of the stipulation under reference, therefore, seems to be to maintain the inequality of advantages and to make certain that Indian industries are never able successfully to compete with British industries.

Question 3. The material well-being of a nation depends as much on the productive capacity of the people as on the natural resources of the country. While the latter is a factor in the determination of which the people have no choice, the former, by reason of the adaptability of the human character, is capable of being regulated and improved. It is the study of this factor that forms such an important feature of the Social Sciences in modern times and is necessary for the attainment of the ideal, so far unrealised, of bringing about the maximum of human happiness.

It is unnecessary to recapitulate here the almost unlimited possibilities that India possesses in its natural resources, but we are concerned here with the more important factor, viz., the human factor.

Indian Social Structure an Asset of Great Economic Value.

One acquainted with the characteristics of the Indian people would fully realise that in the original and acquired qualities of its people, India possesses an asset of the greatest value. The distinguishing qualities of the people are their extraordinary thrift and industry and their adherence to certain social customs, peculiar to themselves, that have been of great economic benefit to the country. The Indian working man is capable

of working long hours under the severest climatic conditions on bare sustenance wages, and as compared with his contemporaries in other countries, is more adaptable to changing environments and quicker to learn his craft. It is sometimes maintained that the system of joint Hindu family provides all the advantages of close co-operation and efficient management without the disadvantages of indifference and malaise found in the Joint Stock business system and that the subdivision of society into hereditary vocations combines, in a modified form, the advantages of trade-unionism, along with the efficiency in craftsmanship resulting from the hereditary nature of most of the occupations.

Slow Increase in Indian Population and Standard of Welfare.

But in spite of these distinctive advantages inherent in the Indian social structure, we find that India has not been able to put them to best use in recent years. Among its economic problems one feature stands out painfully and significantly. During the last fifty years, the populations of most of the advanced countries have increased at a rapid pace, but due to various causes these countries have not only been able to maintain the general standard of comfort but, in most cases, have been able to improve on it. The Indian population, on the other hand, has increased at a very slow pace comparatively, but the country has not been able to improve the material well-being of the people to any appreciable extent. To take one instance, the population of England and Wales increased by 54 per cent. from 26 million in 1881, to 40 million in 1931, and the burden of population on soil increased by 240 persons for every square mile, from 445 in 1881, to 685 in 1931. The population of India, during the same period,

increased by 34 per cent. from 270 million in 1881, to 352 million in 1931, and the density of population increased by 45 persons to the square mile from 150 in 1881, to 195 in 1931. Thus the rate of increase in the density of population per square mile in England and Wales during the last fifty years, was more than five times that of India and in 1931, England was nearly four times as thickly populated as India.

India's Inability to Solve its Problems.

In spite of the heavy rise in her population and several destructive wars during this period, England was able successfully, to guard herself against the operation of the Malthusian Law. This was due to successful attempts made towards improving the efficiency of production, the creation of new industries and finding new markets for her produce along with partial efforts to bring about a more equitable distribution of wealth. India on the other hand was not free to solve its problems in this manner. Its Government, as we have seen, was partial to the maintenance of inequalities of incomes. The country was forced to let a great proportion of the wealth produced annually in the country to be distributed abroad and was allowed to take only half-hearted and very tardy steps towards improving production or creating new industries. Similarly India was not permitted to take adequate steps to improve the economic efficiency of the people, to suit the growing needs of the country.

Economic Efficiency of the People is Low, Due to Low Standards of Health and Education.

It is a self-evident truth that the economic efficiency of a nation bears a close relation with the general standards of health and education of the people and other things being equal, the standard of well-being of a nation will be lower, the lesser is the average scale of health and education as compared with another nation. These standards are unfortunately very low in India. We have noticed in the course of our enquiry what a ridiculously small amount is spent by the Government on the nation-building services and the effect of what little is done in that direction is reduced by top-heavy administration of these services and by drawing invidious distinctions in order to benefit disproportionately certain sections of the population.* The scheme of Reform does not provide adequate resources to the Provincial Governments for this purpose and the powers of the Legislatures are further handicapped by the imposition of safeguards in the interests of the Services.

Handicaps Imposed by Government.

With regard to the Medical Service the Provinces naturally desired perfect freedom of action and hoped that by means of a slow reduction in the number of Europeans employed in these services, they would be able to effect substantial economies that could be utilised for the direct benefit of the people. But under the proposed scheme of Reforms the Provinces will have no power to do so. The Joint

* Some Western writers, in drawing a gloomy picture of India as regards its social conditions, have ignored this aspect of the question. Commenting on India's low standard of health, Dr. Anstey, to quote one instance, attributed it to " the absence of extensive voluntary effort " and absolved India's rulers from all responsibility by concluding that it was " useless for Government or missionary effort to provide medical assistance for the whole population."

Vide Anstey, " The Economic Development of India," page 82.

Select Committee felt itself convinced that "the continuance of the civil branch of the Indian Medical Service will provide the only satisfactory method of meeting the requirements of the War Reserve and of European members of the Civil Services, and that it will be necessary for the Secretary of State to retain the power which he at present possesses (although medical matters have since 1920, been under the control of Ministers) to require the Provinces to employ a specified number of Indian Medical Service Officers." And they go on to say that "In making these recommendations we have not been unmindful of the natural desire of the Provinces to develop medical services entirely under their own control. But the requirements of the Army and of the Civil Services have an over-riding claim." * The Committee thus not only made a derogatory reflection upon the ability of Ministers, responsible to Provincial Legislatures, to maintain the efficiency of the Medical Services under their control, but also admitted, in a frank manner, that the interests of the European members of the Public Services stand, in their opinion, far above the interests of the Indian population. This attitude, however, was consistent with the traditional policy of the Government of India, whose primary aim and object in governing has been the securing of the greatest possible benefit for the governing community.

English Language Disadvantageous to India.

Similarly in its educational policy, the Government of India followed more the convenience of the ruling class than the ultimate good of India, when it made the English language the official tongue and

* Report of the Joint Select Committee, paragraph 299.

consequently the medium of instruction in India. It is an irrefutable fact that the English language can never become the universal language of India because it has very little in common with the Indian languages, and also because India already possesses its own systems of literature to which the people are fondly attached. The need for a Lingua Franca for the whole of India is undoubtedly great, and if the ultimate interests of India were taken into consideration, a solution could be found by adopting as official tongue a language that was understood by the greatest number of people in the country.* The economic loss to the country due to the imposition of a foreign tongue is hard to measure, but we may realise it roughly when we take into account the loss of time in learning it, the extra expenditure on translating work in all Government offices and Courts and the indirect loss to the nation from the large majority of the people remaining ignorant of official and legislative proceedings which are conducted in English. The Government of India Act gives statutory recognition to this injurious institution and provides that all the proceedings in the Federal and Provincial Legislatures "shall be conducted in the English Language" and that "all proceedings in every High Court shall be in the English language." † This means that English will continue to be the principal medium of instruction and loss of the nation's time, energy and expenditure through this source, apart from the disadvantages mentioned above, will go on indefinitely, though the vastness of the

* The combined speakers of Western and Eastern Hindi along with its various dialects and the modernised form of Hindi commonly called Hindustani or Urdu comprise nearly one-third of the people of India. In practice, Hindustani provides the nearest approach to a Lingua Franca for India.

† Government of India Act, section 227.

country's difficulties demands that no effort should be spared to conserve its energies and resources.

Currency and Exchange. Another important question to be examined in connection with the problem of the general welfare of India is that of currency and exchange. Limitation of space does not allow us to study it here with the thoroughness that its importance demands and we will be obliged to restrict our remarks on this subject to the enumeration of some of the salient features of the Government of India's currency policy in the past, and see how far the proposed scheme makes an improvement on it.

Silver Standard was Suited to India's Needs. Up to the year 1893, India had a mono-metallic currency system with silver as the standard of value. This system was excellently suited to the requirements of the country, as the prevalent low standard of income made the use of a common gold currency prohibitive, the smallness of foreign trade as compared to India's total trade tended to minimise the effect of fluctuations in the gold value of the rupee on its trade and commerce and also because a greater proportion of its foreign trade was carried on with silver standard countries. The gold value of the rupee in terms of sterling had for long kept steady at two shillings, but the rapid fall in the price of silver from 1874 onwards, caused a simultaneous fall in its exchange value, so that on one occasion it reached the neighbourhood of one shilling.

Fall in Gold Value of Rupee did not Materially Affect the Country's Trade.

This depreciation in the exchange value of the rupee had little effect on the trade and industry of the country in general. It might have been thought that by stimulating exports and discouraging imports it would benefit one section of commerce to the disadvantage of the other, even though temporarily, until the cost of production and the general level of prices in the country had risen in terms of silver in sympathy with the general level of prices in other gold standard countries and that by introducing an element of uncertainty it would be harmful to its foreign trade. As a matter of fact, the imports, instead of falling did, since 1874, actually double themselves in 1891. The reason was that the gold value of most of the commodities like cotton and iron goods, sugar and petroleum, which India imported, had fallen considerably during this period, so that the prices of imported goods in terms of rupees did not rise in the same ratio as the fall in the gold value of the rupee.* But though the silver standard was best suited to the primary needs of India, and the fall in the gold value of the rupee did not materially affect the trade and industry of the country and had little effect on its comparatively small external trade, the Government of India forced on the country a system which no responsible opinion in the country welcomed.†

* It is interesting to note that during the period of falling exchange, between 1873 and 1892, the general level of prices in India did not rise in proportion to the fall in the gold value of the rupee. From 100 in 1873 it actually fell to 99 in 1883 and rose to only 120 in 1891. The exchange value of the rupee fell from 22·75d. in 1873 to 14·98d. in 1892. *Vide* Chablani, Indian Currency and Exchange, pp. 141–142 and 112–113.

† *Vide* remarks of the dissentient member of the Indian Currency Commission of 1926, on the Government of India's currency policy, page 78, supra.

Change in Currency System.

The reasons that led the Government to take this action were manyfold. British officials in India, who received their salaries in rupees and remitted a portion of their earnings to the United Kingdom, found that these remittances procured fewer pounds sterling at home, and protested against this loss which they considered unjust. There was, however, a substantial fall in the prices of commodities in the United Kingdom during this period and, therefore, in effect there was little loss on this account. Another consideration was the financial burden that a fall in the gold value of the rupee imposed on the Government of India in connection with their external liabilities. The Indian Government pays in the United Kingdom every year a huge sum in £ sterling for items like interest on debt, pensions and purchase of Government stores and, with the fall in exchange value of the rupee, had to provide for a greater amount of rupees to meet the "Home Charges." It was argued that unless exchange was put on a stable basis, the Government would be unable to meet its liabilities without having recourse to excessive taxation. This aspect, however, was greatly exaggerated. A scrutiny of the budget figures of the Government of India, from 1872 to 1893, would show that the budgets throughout this period were very well balanced in spite of serious famines and expensive military operations. It is clear that the budgetary position alone did not justify the alteration of a currency system that was for all practical purposes satisfying the Indian needs.

Safeguarding of British Interests the Real Motive.

The real and by far the most important reason for the alteration of the system was the safeguarding of the interests of British trade and industry. In

India, British business enterprise had found an almost unlimited scope for expansion. There were new and excellent opportunities for the investment of England's surplus capital and the growing British industries had found that, under the paternal care of the Government of India, they could rely with greater security on India's absorbing increasing quantities of their manufactures and on supplying the necessary raw material with greater regularity and in some cases at a lower cost as compared with other countries.* To make the Indian market more secure for British trade and to ensure steady profits from British business enterprise in India in terms of £ sterling, it was necessary to eliminate the hazards of fluctuating exchange.

Depreciation of the Rupee.

In 1893, the mints were closed to the free coinage of rupees and as Government also stopped coinage, the exchange value of the rupee began to rise as compared with the gold value of its silver content. By 1898, the exchange value of the rupee had risen to one shilling and fourpence, and the official rate of exchange was fixed at that ratio ; the artificially appreciated silver rupee remaining unlimited legal tender. With the commencement of the coinage of rupees, the Government made considerable profits from the proceeds of which the Gold Standard Reserve, intended to support the exchange value of the rupee, was formed.

* The total foreign trade of India nearly doubled itself during the twenty years from 1873 to 1893. Exports from India to the United Kingdom rose during this period by more than 25 per cent. and imports to India from the United Kingdom increased by about 55 per cent. The percentage of trade with India to the whole foreign trade of the United Kingdom increased from 8·5 per cent. in 1874–75 to 10·5 per cent. in 1886–87. In 1933–34, although this percentage was 6·5, the volume of the trade of the United Kingdom with India had risen six times from nearly £12 million in 1890–91 to over £70 million in 1933–34.

Gold Reserves held Outside India.

This Reserve and the Paper Currency Reserve, were held in credits outside India sometimes in disregard of the best interests of the country. In this connection it might be useful to quote the opinion of Kisch and Elkin, on the question of holding abroad credits "as the equivalent of gold for the purposes of cover" to the note issue. They remarked that: "Discretion is, of course, needed in the choice of these foreign assets, as there is always a risk, which in abnormal times may unfortunately become an actuality, that even the strongest country in which such assets are held may be driven off the gold standard by *force majeure*. As the holding by a Central Bank of assets abroad involves a degree of dependence on the stability and permanence of financial policy in a country whose Government is beyond the Central Bank's sphere of influence, it is a question for the Bank to determine in the light of circumstances how it should divide its assets between those held at home and those held abroad. In settling this question the Bank should not emphasise unduly the gain from interest on assets held abroad in comparison with unproductive gold held at home." *

Effect of War Conditions on Exchange Value of the Rupee.

The exchange value of the rupee thus fixed remained steady until after the outbreak of the Great War. From 1917 onwards the rate began to rise until it reached two shillings and fourpence in December, 1919. This was due to an immense balance of trade in favour of India, caused by demand for Indian produce in the allied countries,†

* Kisch and Elkin, Central Banks, pp. 128–29.

† During the three years 1916–17 to 1918–19, the balance of trade in favour of India was £6 million a year above the corresponding years of the previous quinquennium.

a heavy expenditure incurred by the British Government in India * and a phenominal rise in the price of silver.† The effect of the rising exchange was, however, disastrous to the Indian export trade as soon as the abnormal war conditions were over, and this fact began to react on the exchange rate of the rupee. Countries which were in need of Indian produce could not find the means to pay for it. On the other hand the imports continued strong. In 1920, the Government tried unsuccessfully to stabilise the rupee at two shillings sterling by selling Reverse Council Bills at that rate. The market rate, however, continued to remain two to three pence below the Reverse Council rate and the Government soon had to give up the expensive experiment. The exchange immediately went down to about one shilling and sixpence and has since continued very nearly at that rate.

Stability of Rupee-Sterling Rate the Prime Concern of the Government.

A close study of the Indian currency system would show that the stability of the rupee-sterling exchange rate has been the chief consideration with the Government of India and in the pursuit of that policy they have often overlooked the interests of the country. All efforts have been concentrated to equalise the price level at Indian ports to that at the English ports so that the standard of value in India has been at the mercy of the currency changes in the United Kingdom. The Government of India have all along identified stability of the Indian currency with the stability of the rupee-

* Payments in India on behalf of the United Kingdom and the Allied countries, from 1916 to the end of 1919 amounted to £240 million.

† The price of silver in 1915 was 27¼d. per standard ounce. Subsequently reduction in the world's produce of silver along with an increased demand for it caused a rise in the price of the metal till in December, 1919, it had reached 78d. per ounce.

sterling rate. As a matter of fact stability of exchange is an international problem and one country has no power to stabilise its exchange with other countries so long as the commodity values of foreign currencies keep constantly changing. The only prudent course for India, as for any other country, is, therefore, to maintain its own standard of value and secure internal and external confidence by stabilising the purchasing power of its own currency. Unfortunately, the monetary policy of the Government of India has in the past followed a contradictory course, by efforts to stabilise the purchasing power in India of the English currency and render the standard of value insecure in view of the changing commodity value of India's own token currency in its transactions with other countries.

In the words of Mr. J. M. Keynes, " Purchasing power does not and cannot mean the same thing in different parts of the world " and he goes on to say that " so far as foreign trade is concerned, I think that the advantage of fixing the maximum fluctuations of the foreign exchanges within quite narrow limits is usually much over-estimated. It is, indeed, little more than a convenience. It is important for anyone engaged in foreign trade that he should know for certain, at the same time as he enters into transaction, the rate of foreign exchange at which he can cover himself; but this can be satisfactorily secured to him by a free and reliable market in forward exchange. It is not important that the rate of exchange at which he covers himself this year should be exactly the same as the rate at which he covered himself for a similar transaction last year. Moreover, there can be moderate fluctuations in the exchanges which will still be

small relatively to the normal fluctuations in the prices of the individual commodities in which the trader is interested, and the exchange fluctuations will be as likely—perhaps more likely—to compensate these individual fluctuations as to aggravate them. Thus—provided our Central Bank offers adequate facilities for dealing in the Forward Exchanges—I do not consider that a fixity of the foreign exchanges is necessary in the interests of foreign traders. Moderate fluctuations, if they are desirable on other grounds, will not be seriously inconvenient." *

Monetary Independence Essential.

It is evident, then, that one of the cardinal points in India's emancipation is the independence of its currency and freedom from its bondage to sterling, for so long as this is not attained India will not be able to conserve its resources to the best advantages to itself. But in view of the stipulations contained in the proposed plan of Reforms this ideal is far from being attained. The management of currency and exchange, which was so far the direct concern of the Government of India, will in future be entrusted to the Reserve Bank of India. The Reserve Bank Act of 1934, provides that the Bank shall sell Sterling in India at rate not below 1s.5 49/64d. for a rupee and buy sterling at a rate not higher than 1s. $6\frac{3}{16}$d. per rupee †

* *Vide* J. M. Keynes' Treatise on Money, Vol. II, page 332.

† The provisions of the Reserve Bank Act are :

The Bank shall sell to any person who makes a demand on that behalf at its offices in Bombay, Calcutta, Delhi, Madras or Rangoon and pays the purchase price in legal tender currency, sterling for immediate delivery in London, at a rate not below one shilling and fivepence and forty-nine and sixty-fourths of a penny for a rupee.

Provided that no person shall be entitled to demand to buy an amount of sterling less than ten thousand pounds.

The Bank shall buy from any person who makes a demand on that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon sterling for immediate delivery in London, at a rate not higher than

Undesirability of Statutorily Fixing the Exchange Rate. The ratio of the rupee to sterling has thus been statutorily fixed and all precautions have been taken to maintain this exchange rate. Expert opinion nowadays considers this to be an undesirable policy. Thus Kisch and Elkin, commenting upon the question of the fixing by Central Bank of the rate of foreign exchange, remarked that : "These drastic powers, or indeed controls of a less rigorous kind, are impediments to trade and business and must, as such, be condemned. As expedients they are usually ineffective owing to the facility with which they can be evaded, and in cases where they have been imposed the aim should be to discard them as soon as possible. . . . A Central Bank must find in its credit policy, and not in direct intervention in the country's trade, the weapon for securing exchange stability." *

Reserve Bank Essentially a Government Concern. With regard to the administration of the Bank, the commonly recognised disadvantages of excessive Governmental control, will continue in the proposed scheme. The Joint Select Committee recommended that : "Any amendment of the Reserve Bank Act, or any legislation affecting the constitution and functions of the Bank, or of the coinage and currency of the Federation, should require the prior sanction of the Governor-General in his discretion. Certain of the functions vested by the Reserve Bank Act in the Governor-General in Council (of which an important example is the

one shilling and sixpence and three-sixteenths of a penny for a rupee.

Provided that no person shall be entitled to demand to sell an amount of sterling less than ten thousand pounds.

Provided further that no person shall be entitled to receive payment unless the Bank is satisfied that payment of the sterling in London has been made.

* Kisch and Elkin, Central Banks, page 126.

appointment of the Governor, Deputy Governor and four nominated Directors of the Bank) will in future require to be vested in the Governor-General in his discretion and appropriate provision in the Constitution Act will be needed to secure this." * The Government of India Act, makes due provision for the foregoing arrangements.

Under the proposed scheme, the Central Board of the Reserve Bank will consist of a Governor and two Deputy Governors appointed by the Governor-General in his discretion, four Directors nominated by the Governor-General in Council, eight Directors elected by the shareholders and one Government Official appointed as Director by the Governor-General in Council.† Thus of the total strength of sixteen, fully one half of the Central Board of the Reserve Bank shall form an official block and it is doubtful if the popular demands for the reform of the Indian currency system could ever be pressed successfully within the administration of the Bank. And so far as the Indian legislature is concerned, it

* *Vide* Report of the Joint Select Committee, paragraph 391.

† With regard to the composition of the Central Board the Reserve Bank Act lays down that :

" The Central Board shall consist of the following Directors, viz., (*a*) a Governor and two Deputy Governors, to be appointed by the Governor-General in Council after consideration of the recommendations made by the Board in that behalf ; (*b*) four Directors nominated by the Governor-General in Council ; (*c*) eight Directors to be elected on behalf of the shareholders on the various registers ; (*d*) and one Government official to be nominated by the Governor-General in Council."

These regulations are to be read in the light of the provisions of section 152 of the Government of India Act, which lays down that :

" 149. (1) The functions of the Governor-General with respect to the following matters shall be exercised by him in his discretion, that is to say (*a*) the appointment and removal from office of the Governor and the deputy Governor of the Reserve Bank of India, the approval of their salaries and allowances, and the fixing of their terms of office ; (*b*) the appointment of an officiating Governor or Deputy Governor of the Bank ; (*c*) the supersession of the Central Board of the Bank and any action consequent thereon ; and (*d*) the liquidation of the Bank.

(2) In nominating directors of the Reserve Bank of India and in removing from office any director nominated by him the Governor-General shall exercise his individual judgment."

will have no power at all to legislate on any matter which "affects the coinage or currency of the Federation, or the constitution and functions of the Reserve Bank" without the previous sanction of the Governor-General in his discretion.*

The grievances of the Indian States with regard to the Government of India's monetary policy will still remain unrectified. The spirit under which the whole scheme of the Reserve Bank and of currency and exchange under Federation has been formulated is a typical example of the Government of India's traditional attitude that:

(*a*) The protection of British interests takes precedence over the advancement of the interests of the people of India and that

(*b*) The interests of the Indian States should be made subservient to those of British India so that the total advantage to British interests may be increased and better controlled.

Disabilities of the States.

The only method in which the States could influence an all-India policy, would be through the Federal Legislature and the Federal Legislature, for all practical purposes, will have no power to control the currency and exchange policy. It is essential for the success of the Federation that the Indian States should have an effective voice in the regulation of a policy that concerns them vitally and the control of which they voluntarily relinquished in the past in expectation of helping the trade of the country in general. The results have shown that the Government of India did not con-

* Section 153 of the Government of India Act lays down that: "No bill or amendment which affects the coinage or currency of the Federation or the constitution or functions of the Reserve Bank of India shall be introduced into or moved in either Chamber of the Federal Legislature without the previous sanction of the Governor-General in his discretion."

duct the currency policy to the best advantage of the country, but acted throughout as an interested party and the scheme of Reforms, and the constitution of the Reserve Bank do not recognise the right of the Indian States to have a hand in the regulation of that policy. Equity demands that the States should be adequately represented in the Central Board of the Reserve Bank of India, and its constitution should be so amended as to make their voice really effective in the administration of the Bank. This question is of such vital importance to the economic well-being of the States that they would be well advised to see that before their entry into Federation, their claim for an effective voice in the determination of the monetary policy of India is fully recognised.

States May Resort to Monetary Independence. We have seen that the present currency system is highly injurious to the whole of India, including the Indian States, in so far as it renders the standard of values in India insecure and facilitates the drain on India's resources. If this system is not placed on a footing more favourable to the States, the natural alternative for them would be to rescind their voluntary agreements with the Government of India under which they replaced their own currency with British Indian coinage and revert again to their former monetary independence. This will not be a good solution of the problem, but it will be definitely the lesser evil as it would enable the States to conserve their resources and protect them against the disadvantages of the present monetary system.

CHAPTER XII

THE SCHEME OF REFORMS STUDIED FROM THE SPECIAL STANDPOINT OF THE STATES

The problem of the financial implications of the States' entry into Federation resolves itself into two main questions. The first is how far the Scheme of Reforms allows for an equitable settlement of the outstanding claims of the States and secondly, is the share of the Federal expenditure, that the scheme contemplates the States to bear, just and equitable and in keeping with their treaty rights and privileges.

Settlement of the Outstanding Financial Claims of States a Prerequisite to Federation.

In Chapter V, we discussed how the fiscal and economic independence of the Indian States has constantly and unjustifiably been encroached upon by the Government of India and how the Indian States' subjects have been made to bear the burden of British Indian taxation. From before the beginning of discussions on Reforms, the States have been urging the settlement of their outstanding financial claims, and in view of the coming Federation have pressed the point with greater earnestness. For, it is only fair that the new Federal Government should not be embarrassed from the very outset of its inauguration by the presentation of the financial claims of the States, and the States on the

other hand should know precisely what would be the financial implications of their entry into Federation. Unfortunately, there has all along been a marked reluctance on the part of the Government of India and His Majesty's Government to consider the general case of the States, with the result that the States continue to be dissatisfied and quite uncertain about the future.

Disabilities Imposed on States Against their Will or Without their Consent are not Binding.

It is true that the cases of individual States with regard to particular matters have been examined, but even in these cases nothing final has been decided upon and few of the arrangements suggested satisfy the points of view of the States. The idea of maintaining the *status quo* has, unfortunately, permeated all discussions on the subject. This attitude is, quite evidently, fatal to the interests of the States, because any disability to which the States were wrongly subjected cannot be justified simply for the reason of its being a *fait accompli*. Most of the disabilities were imposed upon the States either against their will, as for example, restrictions on the States developing their own Telegraph systems, or without their consent, such as the appropriation by the Government of India of Sea Customs on goods consumed in the States, and in so far as these disabilities detract from their independence guaranteed by their treaties, they cannot be supported under any accepted principles of justice.

Other Harmful Agreements may be Rescinded by Mutual Consent.

With regard to other disabilities incurred, subsequent to the States coming into treaty relationship with the British Government, by reason of their entering into various agreements with the Government of India, it is clear that these agree-

ments are in law simply of the nature of contracts and should be governed by the generally recognised principles of the law of contracts. Most of these agreements have been found to be harmful to the interests of the States and the States have justifiably been demanding their revision. Some agreements expressly provide for their termination after a certain period and their defects can be easily remedied when new agreements are entered into. Others that do not make such provision, but are injurious to the States, may also be rescinded under certain conditions. In the words of Sir William Anson "contract rests on the agreement of the parties; as it is their agreement which binds them, so by their agreement they may be loosed," and the States' case for the revision of their harmful agreements gains further strength when with their entry into Federation new parties are introduced into the transaction.

Contracts Repugnant to Treaties Void.

And in all cases where the terms of an agreement are repugnant to the subject or context of a treaty, which defines in perpetuity the rights and obligations of a State, such agreement can always be altered at the request of the State concerned to the extent that it is at variance with the stipulations of the treaty. The Government of India Act, the Report of the Indian States Enquiry Committee and other related documents, entirely ignore this aspect of the question and treat such agreements as binding on the States in perpetuity. We will, however, deal with a few particular instances of this attitude at a later stage in this chapter.

Federal Services Towards Which States may be Required to Contribute.

Concerning the States' share of Federal expenditure, it is evident that it depends largely on the functions alloted to the Federal Government. Under the proposed plan the principal of these functions are :

(1) The Debt services including pensions.

(2) Subventions to deficit provinces and payments to deficit departments such as Post and Telegraph.

(3) Defence Services.

(4) Civil administration and works.

States Cannot Take Responsibility for Pre-Federation Debts of Government of India.

With regard to the pre-Federation debts of the Government of India and pensions earned prior to the inauguration of the Federation, it has all along been agreed that the States shall not bear this burden. The debts were incurred for the benefit of British India and obligations with regard to pensions were incurred for services rendered to British India alone and therefore with the coming in of new partners into the concern, the liabilities of the old partners cannot be transferred to the new concern without the consent of the new partners. Clearly it would not be in the interests of the States to join a concern under unfavourable terms to themselves and they should insist that there should be explicit provision in the Constitution Act, so that these items are chargeable to the revenues of British Indian Provinces alone. Although the principle has been subjectively recognised, the Government of India Act stipulates that " debt charges for which the Federation is liable, including interest, sinking fund charges and redemption charges, and other expenditure relating to raising of loans and the services and

redemption of debt" * shall be expenditure charged on the revenues of the Federation and avoids any direct reference to the freedom of the States from liability on this account.

They Need Not Contribute Towards Expenditure from the Benefit of Which they are Excluded.

Then there are certain classes of expenditure that will be incurred for the benefit of British India only. A subvention of Rs. 1 crore annually will be paid to the N. W. Frontier Provinces for an undefined period, and the claims of Bengal, Assam, Sind and Orissa for financial aid from the Federal Revenues have already been admitted. The States obviously cannot be asked to bear this type of expenditure, from the benefits of which they are entirely excluded. Somewhat similar considerations apply to expenditure incurred to make up deficits in certain departments of the Central Government. The only department that was running at a loss in 1933-34, was the Post and Telegraph Department, when the Central Government had to provide for a sum of Rs. 61 lakhs, to make good the loss. Many States still retain their postal autonomy, while others have this kind of service performed for them by the British Indian Postal Department under working agreements, so that the Central Post and Telegraph Department is essentially a British Indian concern and its liabilities and obligations should be borne only by the British Indian Provinces.

* See section 33, Government of India Act.

The Solemn Pledges of the British Government Absolve them from Responsibilities of Defence.

The question of the Defence Services is very important, not only because of the indispensable nature of these services but also because the cost of the defence comprises nearly 60 per cent. of the total Central expenditure * and therefore needs careful examination. At the time when the States entered into treaty relationship with the British Government, the prime consideration of the parties was to maintain the peace and tranquillity of the country which was torn by never ending wars and internecine strife. By entering into perpetual pacts of peace and amity with the British Government and taking an active part in the pacification and settlement of the country, the States bestowed far greater benefit on the whole country than can be measured in terms of money. For this service and for their agreement to act in co-operation with the British Government in different manners such as their admitting not to have diplomatic relations with foreign powers, they were promised full protection of the British Government against internal disorder or external aggression, and there was no question of their bearing the cost of such protection. The protection that the British Government offered to the States was in the nature of consideration for the services that the States rendered for the general good of the country and for the loss of their international status consequent upon their agreeing to relegate some of their sovereign rights to the British Government. A few States, however, ceded extensive territories, in full sovereignty to the British Government, as their contribution towards defence.

* In 1933–34 expenditure on defence was Rs. 46·20 crores out of the total net expenditure of Rs. 77·91 crores incurred by the Central Government of India.

It follows, therefore, that so long as the British Government continues to act as arbiter in India, this arrangement remains binding, and the States cannot be required to pay for the cost of Defence without substantial renunciation of the clauses of their treaties on the part of the contracting parties entailing complete freedom of action and the regaining of international status by the States.

Responsibility for Defence will still rest with the British Government under Federation.

The argument may be brought forward that so long as the British Government was directly responsible for the governing of India and the States had no say in matters of all-India concern, the arrangement held good, but when the British Government is replaced by a representative Federal Government in which the States are equal partners, they should also equally bear its liabilities and obligations. But this process of reasoning can hardly stand the test of logic and avoids the existence of cogent factors. In the first place, the British Government, far from being relegated to the background, will still be dominant under the proposed Federation. The British Parliament will continue to be the supreme legislative authority in Indian matters, the Governor-General of India, the Provincial Governors, the Judges of the Supreme Court, a considerable number of the members of the higher services shall be appointed by His Majesty's Government and His Majesty's Government through the Governor-General shall have the power to suspend the Federal constitution and assume dictatorial powers at will. In other words the inauguration of the Federation does not in any way reduce the authority and responsibility of the British Government in India. And so far as defence is concerned it will continue to be a

" reserved " subject, the Federal Legislature having no power to control the defence policy. Apart from the fact that their treaties render them immune from bearing the cost of defence, the States cannot be asked to bear an expenditure in the control of which they will have no hand, simply on the ground that they become nominal partners in the Federation. And even if the Federal Legislature was empowered to legislate on defence matters, that fact alone could not entirely exonerate the British Government from the responsibility to give the States the protection that it solemnly promised. On the other hand many of the States are making actual contributions in cash or by way of services by maintaining armies at a high cost to themselves for purposes of Imperial defence, and when the fact is borne in mind that, in the majority of cases, the States are not obliged under their treaties to render these services, the case for the States' immunity from the burden of defence becomes even stronger.

Items of Civil Expenditure Examined.

The remaining item of Federal expenditure is that of Civil Administration and Works. In the year 1934-35, the total expenditure on Civil Administration was Rs. 11.47 crores, the main items being General Administration 1.61 crores, Audit 1.08 crores, Political 1.63 crores, Frontier Watch and Ward 2.10 crores, Administration of Justice, Jails and Police .82 crores, Ports, Pilotage and Lighthouses .33 crores, Ecclesiastical .29 crores, Scientific Research, Education, Health and Industries 2.15 crores, Civil Aviation 1.07 crores and miscellaneous .46 crores.* Apart from this expenditure on Civil Works, in 1934-35, was Rs. 1.23 crores which in-

* *Vide* Appendix F.

cluded Rs. 40 lakhs on account of special subvention to the Road Development Fund.

Expenditure on Federal Territories.

Expenditure on General Administration includes some expenditure chargeable to revenues of centrally administered territories like British Baluchistan and the Andaman Islands and so much of it as is thus chargeable has to be deducted from the total expenditure on General Administration in order to judge the real burden of the Federation under this head. The department of Audit is essential to keep the finances of the Federation in order, but as contemplated in the scheme, it will perform services not only for the Federal machinery but also for the Provinces. The Government of India Act lays down that "The Auditor-General shall perform such duties and exercise such powers in relation to the accounts of the Federation and of the Provinces, as may be prescribed by, or by rules made under, an Order of His Majesty in Council, or by any subsequent Act of the Federal Legislature varying or extending such an order : Provided that no Bill or amendment for the purpose aforesaid, shall be introduced or moved without the previous sanction of the Governor-General in his discretion."*

Audit.

The States, in order to safeguard their autonomy, are not agreeable to make their finances subject to the supervision of the Federal Audit and would be interested in that department only so in far as it concerns the accounts of the Federation. That part of the expenditure on audit which will be incurred in supervising the Provincial accounts will, therefore, have to be excluded from the total cost in order to measure the actual cost to Federation on this department.

* Section 166, Government of India Act.

Curtailment of Political Department under Federation.

Expenditure on the Political Department, as different from the Foreign Department, would, under Federation, be the most unnecessary waste of public money. Originally the Residents and Political Officers were intended to be the accredited representatives of the British Government at the Courts of the Indian Princes, but with the removal of the strategic reasons due to the general pacification of the country and improvement in the methods of communication and transport their responsibilities have been greatly reduced. In recent times their main functions have been to act as liaison officers in matters of common concern between the States concerned on the one hand and the Government of India or another State on the other, and to procure expert advice for the States from British India or elsewhere. With the entry of the States into an All-India Federation the *raison d'etre* of the Political Department will entirely disappear. All negotiations in regard to administrative arrangements such as excise and road transport or the advancing of loans to States from Federal funds will in future be conducted directly between the States and the British Indian Provinces or the Federal Government. With regard to expert advice, the States would be contributing their share of the cost of expert departments of the Federation through Federal Revenues and could rightly claim advice of these departments by approaching the Federal authorities direct. The continuance of the Political Department in its present form would, therefore, be an anachronism and it will be difficult for the States or the Federal Legislatures to agree to contribute for the upkeep of a practically useless department.

It may, however, be advisable to maintain the department in a much curtailed form in order to give advice on the few matters, like dynastic matters of the States and ceremonial, that would still solely rest with the Crown.

But that part of expenditure under this head that concerns the Foreign Department and is incurred for the upkeep of consulates and agencies, in order to protect the rights of the Empire in countries bordering on India, will of necessity have to be met in full. Out of a total foreign and political expenditure of Rs. 1.63 crores no less than Rs. 90 lakhs were spent, in 1934-35, on the Political Department of the Government of India, which Department was concerned with the Indian States alone. With the curtailment of the responsibilities and, therefore, of the establishment of the Political Department, it may not be difficult to bring down this expenditure by about Rs. 63 lakhs so that the aggregate expenditure on Foreign and Political Departments need not exceed Rs. 1 crore.

Other Necessary Expenditure.

Expenditure on the Administration of Justice, Jails and Police, is equally a necessary item and that portion of it that does not appertain to the Centrally administered areas should be proportionally borne by the States, and similar considerations apply to expenditure on Ports and Pilotage, Civil Aviation and Civil Works. It is evident that the Indian States have no interest in the Ecclesiastical Department and cannot be asked to contribute towards the upkeep of it. But with regard to expenditure on Scientific Research, Education, Medical, Public Health and Industries, it is proper that the States should contribute their share. These subjects mainly lie in the sphere of Provincial activities,

but there are some special activities such as the Meteorological Department that can be usefully conducted only under the authority of the Central Government and excluding such expenditure on Education and Public Health as is incurred for the exclusive benefit of Federal territories, expenditure on these items should be borne, pro rata, by the States.

Items Towards Which States Should Contribute.

The total Federal expenditure under civil heads, if we base our calculations on the Government of India's budget figures for the year 1934-35, would be Rs. 11.47 crores and if we add to this the sum of Rs. ¾ crores on account of the additional cost of an increase in the size of the legislatures and electorates and the establishment of the Federal Court the total comes to a little over Rs. 12 crores. By excluding expenditure on the Ecclesiastical Department, and allowing for a reduction in the cost of the Political Department and the special expenses for the benefit of Centrally administered areas, it may be safely assumed that the total expenditure on civil items, towards which the States may be justly asked to contribute, would not be more than Rs. 10 crores.

What the States' Net Contribution Towards Cost of Federation Should be.

In estimating the States' proper share of this expenditure, the only workable basis on which such share could be calculated is the proportion of their population to that of the whole of India, and assuming it to be 22.7 per cent. we may say that roughly their share should range between 2 and 2½ crores. We have seen above that the Indian States cannot be required to pay, in equity, for the pre-federation liabilities and subventions to British Indian Provinces and Depart-

ments and that, under their treaties, they need not bear the cost of defence. The only expenditure, therefore, towards which they should contribute, on their entering the Federation is that portion of expenditure on civil items which is entirely Federal in nature and is not for the benefit of particular communities or areas. The burden of Federal taxation on Indian States, therefore, should not exceed in aggregate the sum of Rs. 2½ crores.

Their Share According to the Proposed Scheme.

Having discussed what the proper share of the States should be towards the cost of the Federation, we should see how much the States are required to contribute for it under the proposed scheme of Federation. The direct sources through which the scheme contemplated the States to pay their share of Federal expenditure are enumerated below, and we should estimate how much the States would contribute under these items.

(1) Duties of customs including export duties.

(2) Duties of excise on tobacco and other commodities and articles manufactured or produced in India, except:

- (*a*) Alcoholic liquor for human consumption.
- (*b*) Opium, Indian hemp and other narcotic drugs and narcotics, non-narcotic drugs;
- (*c*) medicinal and toilet preparations containing alcohol, or any substance included in paragraph (*b*) of this entry.

(3) Corporation tax.

(4) Salt.

(5) Income through currency and coinage.

Contribution Through Sea Customs.

With regard to import and export duties, the Indian States Enquiry Committee (Financial) of 1932, admitted the claims of certain States for immunity

from contribution to Central Customs revenue due to their peculiar privileged positions and engagements with the Government of India. All of these are maritime States except Kashmir, which under special agreement with the Government of India, imports its goods in bond. The total immunity recommended by the Committee, under the sea customs, amounts to a sum of Rs. 1.51 crores.* Assuming the population of the States to be 22.7 per cent. of the total population of India, and the approximate customs revenue of the Federation, plus the revenue from sea customs of the Kathiawar States to be about 52 crores,† the share of the States towards the total customs revenue, on the basis of population would be Rs. 11.80 crores nearly. If the Committee's recommendations for the remission of Rs. 1.51 crores to certain States was adopted, the contributions of the remaining States to the Federal revenues through customs would still be Rs. 10.29 crores under the proposed arrangements.

* The Indian States Enquiry Committee distributed these immunities among various States as follows :—

Travancore and Cochin . .	24·	Lakhs.
Bhavanagar	51·05	,,
Jafarabad (Janjira) . . .	·37	,,
Janjira	·20	,,
Junagadh	16·71	,,
Mangrol	·75	,,
Porbandar	3·55	,,
Baroda	5·39	,,
Nawanagar	12·57	
Morvi	3·46	,,
Cambay	·09	,,
Savantwadi	·12	,,
Cutch	8·00	,,
Kashmir (remission of sea customs on bonded goods) . .	25·00	,,
Total . .	151·26	,,

† The net revenue of the Government of India from sea customs was Rs. 50·27 crores in 1933-34 and in the following year it was Rs. 50·09 crores.

No Contribution Through Excises and Corporation Tax.

Up to the year 1934-35, excises were imposed on motor spirits, kerosene, silver, sugar, matches and steel ingots, and receipts from these were included in the figures for customs revenue. The share of the States through Federal excises may, therefore, be considered included in the figure for customs. It is difficult to estimate what the revenue from excise on tobacco would be, if and when it is imposed, and as we are basing our calculations on the actual budget figures for the last two years, when the excise on tobacco was still in abeyance, we may leave out this item. The Corporation Tax, which the Federal Finance Committee of 1932, thought "could be relied on to compensate the Federal Government for a fall in customs revenue," * is not expected to yield a substantial revenue and in any case the States are not agreeable to the imposition by the Federal Government of the tax on companies registered in their territories. There will, therefore, be no contribution from the States through this source.

Contribution Through Salt Tax.

In regard to salt tax, the Indian States Enquiry Committee recommended the maintenance of the *status quo*,† so that the States will still be paying a sum of Rs. 1.62 crores under this item to the Federal revenues.‡ The Indian States Enquiry Committee have entirely ignored the question of the States' contribution through currency and coinage. The Government of India have in the past made considerable profits through this source and presumably the Federal Government will continue to

* Report of the Federal Finance Committee, 1932, paragraph 98.

† *Vide* Report of the Indian States Enquiry Committee, 1932. chapter VI.

‡ *Vide* chapter IV, page 28 *supra*.

do so. We have estimated, in a previous chapter, that the States' contribution through currency and coinage amounts to Rs. .88 crores.* The States' share through the above mentioned sources would therefore be :

Customs . . .	Rs.	10.29	crores.
Salt . . .	„	1.62	„
Currency and Coinage	„	.88	„
Total .	„	12.79	crores.

Total Contribution Through Taxes, etc.

Apart from the above contributions, the Indian States subjects pay a considerable amount to the revenues of the Government of India by way of income tax on Indian Government securities and shares in British Indian companies. The States have been pressing for the recognition of their claim under this item and they have made it plain that they are not prepared to accept any plan that imposes on their subjects any direct Federal Tax. But the Indian States' Enquiry Committee avoided the question altogether and presumably the States' subjects will continue to pay this tax under the proposed Federation. It is difficult to estimate this amount for lack of information as to the total value of Government Securities and Shares in British Indian Companies held by Indian States' subjects, but we may safely assume that out of the average revenue of the Government of India from income tax of about 17 crores, at least 1 crore is borne by the Indian States' subjects through their investments in British India. We shall not, therefore, be far from truth in making the generalisation based on the budget figures for 1934-35, that if the

* *Vide* chapter IV, page 31 *supra*.

States enter the Federation as planned under the Government of India Act, the States will have to contribute to the Federal Fisc through customs, salt, currency and coinage and part of the income Tax to the extent of Rs. 14 crores nearly.

Contribution Through Services Rendered.

Another important contribution that the States make for the benefit of the Empire is by their undertaking part of the cost of defence. Strictly speaking the responsibility for defence rests, under their treaties, entirely with the Paramount Power, but the States, of their own free will, have been relieving the Government of India of a portion of this responsibility, so that the Indian State Forces have now become an integral part in the general scheme for the defence of India. The efficiency and equipment of these troops are maintained on practically the same level as those of British Indian troops and the British Government has made provision for the maintenance of a permanent staff of British Officers to advise and assist the Princes in organising and training their troops. The Indian State Forces have very often been lent in emergencies to the Government of India and have on many occasions rendered military service of great value to the Empire. During the Great War, for example, all the Indian States placed the whole of their military resources at the disposal of the British Government. Their troops fought in France and Flanders, Egypt, Mesopotamia, Africa and various other fronts, and were on occasions commanded by the Rulers in person.*

* Their Highnesses the Maharajas of Patiala and Bikaner saw active service at the various Fronts during the Great War and took distinguished part in the conduct of the War as members of the Supreme War Council.

Indian State Forces Integral Factor in the Defence Scheme. It is evident, therefore, that the Indian State Forces are a factor of great strategical importance and their services cannot be dispensed with without high additional cost to the Central Government. The Federal Government will in future continue to rely on their assistance and it is proper that in measuring the States' share towards the cost of Federation, the cost of the Indian State Forces should be taken into account. The authorised strength of the Indian State Forces on 1st October, 1933, was 49,371, and their importance can be imagined when it is remembered that the total strength of the British Indian Army in the same year was not more than 254,354. Figures for the cost of the forces maintained by many of the States are not available and in order to judge the total cost of the Indian State Forces we will again be compelled to base our estimates on generalisation. The cost of the British Indian Army in the year 1932-33, was Rs. 49.5 crores nearly, and if the Government of India had to increase the strength of its army by 49,371 men, we may say that roughly, the cost would increase by Rs. $\frac{49{,}371 \times 49.5}{254{,}354}$ or 9.6 crores. This, in fact, should be the correct measure of the value of the defence services rendered by the Indian States to the country. Actually, the cost of the maintenance of the States Forces is somewhat less than Rs. 9.6 crores for the reason that these forces are entirely composed of Indian soldiers whose cost is less than the average cost of a British soldier and the extravagance that characterises the conduct of the Military Department of the Government of India is absent in the Indian States. But we are

Value of the Military Services Rendered by States.

concerned here with the measurement of the States' share of the Central burdens and whatever the actual cost of the States Forces may be, we have to take into account the relative value of the service rendered, according to British Indian standards. The Indian States Enquiry Committee, while admitting that " the existence, strength and efficiency of these forces cannot be ignored " decided, however, not " to attempt to translate into a money equivalent the value to be attached to the military contributions of the Indian States." * It is hardly necessary for us to comment on the Committee's illogical method of coming to a conclusion.

Cash Contributions. The cash contributions of the States to the British Government amount to Rs. 75 lakhs annually. The Indian States Enquiry Committee recommended the immediate remission of these tributes to the extent that " any contribution is in excess of five per cent. of the total revenues of the State " concerned.† The relief thus granted will amount to Rs. 12 lakhs while in regard to the remaining sum of Rs. 63 lakhs the Committee have suggested gradual remission so that " a moiety of the contributions which remain payable after the remission " mentioned above, " should be extinguished not later than ten years, and the whole not later than twenty years, from the date on which they enter Federation." ‡ The States, on their coming into Federation, will still be required to pay, at least for the first ten years, an annual sum of no less than Rs. 63 lakhs to the Central Government.

* Report of the Indian States Enquiry Committee, 1932, paragraph 173.

† *Ibid.*, paragraph 88.

‡ *Ibid.*, paragraph 90.

Total of Direct and Indirect Contributions of States. Thus we conclude that, other things remaining the same, the total expenditure under the proposed scheme would be Rs. 77.91 * plus Rs. 9.6,† i.e., Rs. 87.51 crores. To this sum the Indian States would contribute as follows :

Customs . . .	Rs.	10.29	crores.
Salt . . .	,,	1.62	,,
Currency and coinage	,,	.88	,,
Military services .	,,	9.60	,,
Cash contributions .	,,	.63	,,
Total .	Rs.	23.02	crores.

Burden on States Excessive. In other words, the Indian States will be made to bear fully 26.3 per cent. of the Federal burdens. If for the sake of argument we suppose that the States agree to bear equally the pre-Federation liabilities of the Government of India, to contribute towards subventions to deficit British Indian Provinces and Departments and renounce their treaty rights of claiming military protection from the British Government, even then this burden would not be justified, for, on the basis of their population, their proper share should be 22.7 per cent., instead of 26.3 per cent. of the total Federal Expenditure. In fact, the Indian States being on the whole, industrially less developed than British India, their burden should in equity be lighter than that of British India. This, however, is only a hypothetical situation.

* As given by the Joint Select Committee, paragraph 243 of the Report.

† The money equivalent of the military services rendered by the Indian States.

Further Examination of the Position. We have mentioned above that the Indian States, on their entering Federation, would not like to bear the pre-Federation liabilities of the Government of India, that they cannot in justice be asked to contribute towards the cost of giving monetary assistance to British Indian Provinces or support British Indian Public Departments from the benefit of which they are excluded and that the British Government, so long as it remains paramount in India, cannot withdraw from its treaty obligations of adequately providing for the defence of the States. The only part of the Federal expenditure that the States may be asked to bear in equity and in accordance with their treaty rights, is that under the main head "civil administration and works" and we have shown that their share of this expenditure should not exceed Rs. 2½ crores. But if they enter Federation on terms of the proposed plan their share of the cost would be over Rs. 23 crores or more than nine times their legitimate burden. It is clear that a Scheme of Federation, more iniquitous and harmful to the States than that contained in the proposed plan, is hard to conceive.

Other Losses States will Suffer under Federation. But the harmfulness of the scheme is not limited to the distribution of the Federal burdens alone. There are a number of other allied matters in regard to which the interests of the States will suffer if the proposed plan is adopted by them. In the beginning of the present chapter we referred to certain agreements that the States entered into, subsequent to their coming in treaty relationship with the British Government. Many of these, after the lapse of years, have been found to be harmful to the States and although, in many instances, con-

ditions have changed to such an extent that under the accepted principles of law a revision is called for, the Government of India are unwilling to admit the States' claim for revision or to provide adequate relief. The scheme of Reforms attempts to give legal sanction to these inequitable arrangements so that once the States enter Federation according to the proposed plan, they will be barred, for all time, from putting forward claims for the rectification of these inequities. It would be useful, therefore, to examine briefly at this stage, the position in regard to these matters, in the light of the proposed plan of Reforms.

Railways.—The railways in Indian States may be divided into three classes, namely :

(1) Those owned by the States.

(2) Those owned by the Government of India, and

(3) Those owned by Railway Companies.*

Railway Tribunal. In regard to railways owned and worked by the Indian States, the Government of India Act imposes certain restrictions on the freedom of the States as to the construction of railways within their territories, but as similar restrictions are imposed on the Federal Railway Authority also, it may be presumed that the effect of the stipulation which aims at the unification of the Indian railway policy, will not be unjustifiably disadvantageous to the Indian States.† A good deal, however, will depend on the successful working of the Railway Tribunal, to which disputes between the Federal Railway Authority and the Indian States with regard to the affording of mutual traffic facilities, the avoidance of unfair

* For details see Appendix D.
† Government of India Act, section 195.

discrimination and the construction of a railway or altering the alignment or gauge of a railway in such a manner as to result in unfair or uneconomic competition, will be referred. The Tribunal shall consist of three persons selected by the Governor-General in his discretion and its jurisdiction shall extend, according to the provisions of the Act, to every Federated State.* The Indian States will thus be placed further under the authority of a body that is entirely external. Without prejudicing the general scheme, however, this difficulty may be met, to some extent, if one out of the three members of the Tribunal is a nominee of the Princes. Such member may either be nominated by the Chamber of Princes or the several States, which have interest in railways, may jointly or severally appoint a panel of men out of whom one member of the Tribunal may be selected.

Right of States to Work Railways Owned by them.

The Government of India Act provides that the Federal Railway Authority "may make working agreements with, and carry out working agreements made with, any Indian State" with respect to the working of railways.† Thus, railways owned by the States but worked by the British Indian railway systems may, under Federation, be worked by the Federal Railway Authority under agreements made with the States. It follows, therefore, that, with the change in parties to the contract consequent upon the taking over of the railways by the Federal Railway Authority, all working agreements will become subject to renewal. It follows, further, that the States may resume the working by themselves of railways owned by them if it is considered more advantageous to the States and if the taking

* Government of India Act, section 196. † *Vide* section 185.

over of such railways does not seriously affect other railway administrations. As the Government of India Act is not clear on this point, it would be advisable for the States, which have their railways worked by British Indian railway systems, expressly to reserve this right through their Treaties of Accession.*

Railways Constructed on State Lands.

Similarly, the claims of the States to share the profits of the railways in States owned by the Government of India or Railway Companies or to have the option of purchasing them have not been given due consideration. These claims of the States are based on their sovereign rights and on the fact that land originally acquired for railway construction was granted by the States free of cost. There have been cases in which the Government of India, on the termination of a company's lease, have purchased and taken over railway traversing an Indian State without considering the claim of the State, which was the owner of the land on which the railway was built and which exercised sovereign rights over its territories.† The States have thus been deprived not only of a valuable source of revenue, but have had their inherent sovereign rights encroached upon. The Indian States En-

* One example of such railway is the Bhopal-Ujjain Railway in Central India. The railway is confined to Indian States' territory and is owned jointly by Bhopal, Gwalior and other States whose territory it traverses.

Since its construction it has been worked by the G I.P. Railway system under agreements with the owning States terminable at a specified date, and does not form part of any main or strategic line. If the owners of this Railway so desire nothing should bar them from resuming control and working of the railway.

† One case in point is that section of the main line of the G.I.P. Railway that lies between Bhopal and Bhilsa in Gwalior. The State of Bhopal gave land free to the Company for construction of the railway and on expiry of the Company's contract with the Government of India, the latter took over the line, without even referring the matter to the State or taking into consideration the sovereign rights and economic claims of the State.

quiry Committee considered that where the grants of land were unconditional, there was " clearly no valid ground for claiming now a share in the profits of the railways concerned or an option to purchase the railways and appropriate their net profits." * The Committee, here committed the fatal mistake of ignoring two facts, firstly that the Indian States granted land in the first instance for the promotion and encouragement of railways and as the railways were not expected to pay good profits in the early days of their construction, no conditions were laid down by them and secondly that the Government of India had no right to acquire or dispose of rights of a third party, i.e., the States, in their agreements with railway companies without express authority from the States.

We see then that the grievances of the States in regard to the railway policy of the Government of India remain unremedied and we conclude that the railway scheme as envisaged by the Government of India Act is far from being satisfactory to the States.

Posts and Telegraphs.—In their relations with the Governments of India in regard to Post, the States may be grouped into three classes :

(1) Those which have their own postal departments.

(2) Those which have their postal departments worked by the British Indian Postal Department under agreements with the Government of India ; and

(3) Those which have no postal departments of their own and in whose territories the postal services are performed by the British Indian Postal Department.

* Report of the Indian States Enquiry Committee, para. 178.

Competition Between State and British Indian Postal Departments.

The main grievance of the States having their own Postal Departments is that side by side with their post offices, the British Indian post offices are also functioning in their territories at railway stations or military cantonments over which the Government of India exercises its jurisdiction. The postal services being essentially of the nature of Government monopoly, the States' Government suffer a considerable loss, due to competition with the British Indian Posts. In case of States whose postal departments are worked by the Government of India, there has been a marked reluctance on the part of the latter to run them in a manner so as to safeguard the interests of the former. So far as the objections of the States to the banking operations within the States of the Post and Telegraph department of the Government of India, in so far as they compete unfairly with similar activities of the States, are concerned, the Indian States Enquiry Committee have pronounced their view in favour of the States' claim. In doing so they endorsed the opinion of the Government of India, who recommended that " we admit, however, that it would be a new and unjustifiable principle of political practice to hold that the Paramount Power is entitled to carry on these transactions in States against the wishes of the Rulers, and in some cases, in competition with the Darbars' own local arrangements. We are prepared, therefore, to arrange for their complete cessation in the territory of any State which definitely asks for it." *

* Report of the Indian States Enquiry Committee, para. 391.

States' Interests Subordinated to British Indian Interests.

In the above pronouncement of the Government of India the qualifying words "new and unjustifiable" are significant. It has been admitted here that the Paramount Power, cannot with justification, impose on a State an arrangement that is against the wishes of the Ruler or is in competition with certain activities of the State concerned. This principle is equally applicable to a number of other arrangements that have been imposed upon the States against their wishes and to their disadvantage. Numerous examples of such arrangements are to be found in the existing arrangements between the States and British India, especially the one mentioned above concerning the competitive activities of British Indian post offices in Indian States' territories. According to the principle laid down by the Government of India, all such arrangements should be considered unjust. Yet where an alteration of the arrangements entails loss to British Indian revenues these principles of justice are conveniently set aside. The Indian States Enquiry Committee even went to the extent of saying that "We should deprecate any attempt to remedy existing inequalities at further cost to Central or Federal Revenues." *

Telegraphs.

Similar considerations apply to the policy of the Government of India with regard to telegraphs in Indian States. Under the existing rules the States are not free to construct their own telegraph systems even within their own territories without the consent of the Government of India while the final authority to establish a British Indian Telegraph Office in an Indian State rests with the Government of India. The in-

* Report of the Indian States Enquiry Committee of 1932, para. 394.

equitability of these arrangements is obvious. With the entry of the States into Federation according to the plan of the Government of India Act which places "Posts and Telegraphs, including telephones, wireless, broadcasting, and other like forms of communication ; Post Office Savings Bank," within the exclusive jurisdiction of the Federation, the freedom of the States with regard to these activities will be further curtailed. It would be advisable, therefore, for the States to make special provisions, through their Treaties of Accession, to safeguard these rights. The States which have their Posts and Telegraph Departments worked by the British Indian Department should make it plain that the agreements through which the working of these Departments was entrusted to the Government of India, should not be considered to have conferred a right on the Government of India to control in perpetuity the posts and telegraph policy of the States concerned.

Our remarks on the railway and post and telegraph position should not be considered as advocating the complete isolation of the States' activities in regard to these departments. In fact unitary control of these departments is a highly desirable object, and our purpose is to emphasise the fact that, in attaining that object, the terms of possible transfer of control from the States to the Centre should not be unfavourable to the States.

Importance of Land Customs as Source of Revenue.

Land Customs.—The majority of the Indian States exercise as part of their Sovereign rights, the right to levy export and import duties at their land frontiers. In many States it is an indispensable source of income, being second in importance to land revenue only. From the beginning of conversations on

Constitutional Reforms the question of the abolition of internal customs barriers has attracted the attention of politicians and the tendency was to press the States for the removal of these barriers in order to attain the ideal of unhampered economic unity within the Federation. On further consideration, however, the attitude had to be altered and the Peel Committee which went into the question, remarked " it may be impossible for the States to surrender, either immediately or in the near future, large sources of revenue without the acquisition of fresh sources, nor would it seem to be in general an equitable plan for the Federation to attempt to buy up, so to speak, the existing rights of the States in such a matter. This would simply mean that in the general interests of economic unity and to facilitate trade, a tax would be imposed on the Federation as a whole, in order to relieve the inhabitants of the States. The abolition of these taxes must, therefore, be left to the discretion of the States to be effected in course of time as alternative sources of revenue become available." *

There are, however, some States, a few of the Punjab States for example, on whom the Government of India have imposed restrictions as to freedom to levy customs at their land frontiers, and which restrictions place them in an invidious position economically as compared to other States. The Indian States Enquiry Committee recommended the removal of " these restrictions in the relatively few cases where they exist," and in doing so they sounded a note of warning that " apart from its retrograde and anti-federal implications, we entertain some misgivings as to the consequences which might ensue if important States which are at

* Quoted by the Indian States Enquiry Committee of 1932, para. 417.

present under restriction or limitation in the matter of inland customs duties were to resort to the erection of protective barriers to the detriment of neighbouring parts of India." *

In so far as the Committee have admitted the point of view of the States for their retention of the right to levy land customs duties, the Committee's recommendations are a welcome departure from the past practice of the Government of India. But it has to be remembered that the retention, or as in some cases, the resumption of this right, does not entail a loss to the revenues of British India and the Committee could afford to be indifferent in their attitude about this question. On the other hand they did not fail to point out the undesirable effects of the resumption by some States of their right to collect land customs on the interests of "neighbouring parts of India" meaning obviously "British India" and in doing so disclosed the fact that they also were working under the influence of the same policy that has traditionally characterised the attitude of the Government of India towards the States, viz., of making the interests of the Indian States subservient to those of British India.

It may be noted that the Government of India never had similar scruples in cases where a particular fiscal action on its part harmed the interests of the Indian States. For example, the Government of India would establish its post and telegraph offices in the Indian States' territories so as to compete with the States' own Post and Telegraph, but would not allow even the connecting of a State's telegraph system with the British Indian system beyond State territories. By establishing the Viramgam customs barrier, in order to protect

* Report of the Indian States Enquiry Committee of 1932, para. 418.

its own revenues, the Government of India inflicted a serious loss on the revenues of the Kathiawar States, but would show, as mentioned above, the greatest concern if the imposition of land customs by the States, a right inherent in their sovereignty, had detrimental effect on the trade of British India. Numerous such instances are to found in the history of the relations of the Government of India with the Indian States, and they cannot be indefinitely dwelt upon. Our object, however, in making a diversion from the subject under discussion, was to emphasise the fact that, in spite of the changed circumstances and the invaluable services that the States rendered to the crown, the spirit of aggrandisement at the expense of the States and of treating them as of little account, that governed the policy of the East India Company, still animates that of the Government of India and His Majesty's Government to-day.

Reverting to the question of land customs, we need only add that it is not only a valuable source of revenue to the States which cannot, under the present circumstances, be replaced, but the retention of the right also provides an effective method, under intelligent control, for the conservance of the wealth of the States against external exploitation under which British India is suffering, and, therefore, utmost importance should be attached to the preservation of this right. With the recognition of the States' claims to their legitimate share of revenues they have been deprived of, and the removal of the fiscal disabilities of British India, it may eventually be possible for the States to abolish their customs barriers, for, it is advisable in the interests of a United and Greater India, that there should be unhampered trade and intercourse from one part of the country into another.

Ceded Territories.—The question of the valuation of the territories ceded by certain States to the British Government for specified purposes has attracted a good deal of attention since conversations on the proposed Indian Reforms began, and it would be advisable to refer briefly here to the main points involved. There are only five States, viz., Hyderabad, Baroda, Gwalior, Indore and Sangli, which have ceded territories in this way and whose claims for adjustment of burdens and resources between them and the Government of India have been recognised. These territories now form for all practical purposes an integral part of British India and comprise roughly speaking, an area of about 40,000 square miles and a population of nearly ten million,* excluding Berar which stands on a different footing altogether. All of these territories were ceded by the States mentioned above, for the maintenance of a specified number of troops by the British Government for the service of the States concerned out of the revenues of these territories. The States claimed that the revenues of these territories have since their cession increased manifold and the surplus revenue after meeting the charges enjoined by the treaties of cession, should be payable to them.

* The Special Committee appointed in 1930, to investigate the economic and financial relations between British India and Indian States, found it difficult to indentify the territories geographically as "the various cessions were made over a hundred years ago, since when considerable changes have taken place in the territorial organisation of districts partly as a result of fresh acquisitions and partly for administrative purposes." But taking the areas and present population of the approximate districts ceded by the States which can only be roughly identified and making allowance for a number of detached and unidentifiable pieces of territory, our estimate would not be far from truth.

Valuation of Ceded Territories.

The Special Committee appointed by the Government of India, in 1930, and the Indian States Enquiry Committee of 1932, both went into details as to the merits of every case in particular, and it is unnecessary for us to enter into those details here. We will therefore confine our remarks to the general principles that should be applicable in attempting to suggest equitable adjustments of financial burdens and resources under this head. There has been a tendency on the part of the Government of India, from the beginning of discussions on this subject, to dismiss this particular claim of the States on the ground that the valuation of the ceded territories left no margin for financial adjustments. The States' point of view was that if these territories did not pay they would be prepared to close the matter by taking back the territories and providing by cash contributions or allotment of other sources of revenue for the payment of the actual services for which the territories were ceded. The Indian States Enquiry Committee, however, could not totally deny the force of this argument and remarked that " as between homogeneous units, this would be the obvious solution of the problem." But in their attempt to avoid admission of the principle of retrocession of territories they had to fall back upon evasive and unconvincing arguments by saying, " we are given to understand that retrocession is not within the bounds of practical politics, and our Terms of Reference certainly confine us to the recommendation of some financial adjustment instead." *

* Report of the Indian States Enquiry Committee of 1932, para. 102.

Alternative Bases of Valuation.

Finding that the most natural solution of the problem, viz., that of retrocession, was not acceptable to the Government of India and the Committee, the States suggested two alternatives that might have been considered the next best in equity. The first was to assume that retrocession had taken place and then to ascertain whether under the State system of administration there would be a substantial surplus available." It is a well known fact that the States' administrations are conducted in a much more economical manner than the administration of British India without being less efficient, and the States realised that if financial adjustments were made on this basis it would be possible to show substantial surpluses on account of the ceded territories. This method again was not acceptable to the Committee, who, without putting forward adequate argument to substantiate their attitude, concluded that "We find any approach to the problem on these lines too vague and general for practical purposes. We are not, therefore, prepared to apply to the ceded territories the ordinary scales of pay and standards of State administration as an element in valuation." *

Similarly the other suggestion, that the present day cost of the military units specified in the treaties of cession should be ascertained and the States should be credited with this figure in lieu of compensation based on net revenues of the ceded territories, was set aside. The Committee admitted the fairness of this alternative and recognised the fact that the States which had surrendered territory in return for obligations accepted by the British Government "cannot in fairness be asked, on

* Report of the Indian States Enquiry Committee of 1932, para. 103.

entering Federation, to contribute to defence on the same basis as other units which had made no such sacrifice." Yet they refused to accept the suggestion on the ground that " the changes in military ideas and methods have been so far reaching that any valuation of the present day cost of troops specified over a hundred years ago would be merely misleading and offers no prospect of a satisfactory solution of the difficulty." This is hardly a cogent argument, for admitted that the cost of troops has increased during these hundred years, but so has the standard of values in India and the net revenues of ceded territories increased manifold and it is not beyond the scope of good arithmetic to evaluate and compare them according to the present standards.

The real explanation of the Committee's attitude, however, is to be found in the fact that none of the above mentioned solutions suited the convenience of the Government of India, and however reasonable these solutions might be they could not be acceptable to a Committee, whose primary aim and object was to justify all the unmerited advantages that the Government of India had come to enjoy at the expense of the States through its policy of uninterrupted aggrandisement during the last hundred years. The Committee, therefore, having disposed of the fair and equitable solutions put forward for the purpose of financial adjustments in regard to ceded territories, devised a formula of valuation that could not be supported by any principle of justice or equity. They recommended as the basis of valuation the net revenue of the territories at the date of cession and proposed that this revenue should be set off against the contribution that the particular State would be called upon to make

towards the cost of defence on their entering Federation.

Weaknesses of the Committee's Argument.

The Committee thus contradicted themselves in their attempt to find a method of adjustment that would be suitable to the present requirements of the Government of India. While on the one hand they held that the cost of the troops a hundred years ago could not be taken into account in making present day financial adjustments, they in the same breath suggested the setting off of the amounts of the cost of these troops for the payment of which the territories were ceded against the present cost of defence. It is the maintenance of the specified number and strength of the troops, the binding nature of their treaties, and the necessity to confine comparisons to contemporary figures only, that are the deciding factors in the discussion, and, therefore, shorn of its element of fallacy, the Committee's argument on which they have based their method of valuation comes to this :

That the present day cost of the troops that the British Government agreed to maintain for the service of the States concerned and for the upkeep of which the States surrendered extensive territories should be set off against the contributions the particular States would be called upon to pay towards the cost of defence on their entry into Federation.

Value of Territories at the Time of Cession.

" When the districts were surrendered, a careful estimate of their values was recorded " and accepted by the parties to the agreements and the number of troops and the amounts for which these territories were ceded were as follows :

States.	Troops for the maintenance of which the territories were ceded.	Cost of the subsidiary force at the time of the treaty of cession.
Hyderabad.	8,000 infantry and 1,000 cavalry with guns.	Rs. 24,17,100
Baroda.	4,000 infantry, two regiments native cavalry, one company of European artillery, and two companies of gun luskars with necessary ordnance, warlike stores and ammunition.	24,43,007
Gwalior.	6,000 infantry with artillery and stores.	18,00,000
Indore.	3,000 horse.	1,11,214
Sangli.	For exemption from military service of a feudal character.	1,35,000

The State of Sangli, in its relations with its former suzerain, the Peshwa, was under a feudal obligation to render military service when called upon to do so, and on its coming into treaty relationship with the British Government the Ruler of Sangli compounded the obligation of military service by assignment of territory. The number of troops for which this assignment was made was 450. The cost of the troops for the maintenance of which the States in question ceded territories, has to be judged according to the present standard cost of the British Indian Army. This cost on the basis of the military expenditure of the Government of India for the year 1932-33, was on the average about Rs. 19.48 lakhs per thousand troops.* Therefore, the amount for which the States surrendered territories, would on present standards, be computed as follows :

Present Day Cost of Troops for the Maintenance of Which Territories were Ceded.

* Expenditure on 254,354 troops including reserves amounted to over Rs. 49·5 crores.

State.	Number of Troops.	Average cost in Lakhs of Rupees.
Hyderabad . . .	9,000	175.32
Baroda	6,000 (approximately)	116.88
Gwalior . . .	6,000	116.88
Indore	3,000	58.44
Sangli	450	8.76
For artillery to be provided for Hyderabad, Baroda and Gwalior . .	550 (approximately)	10.72
		487.00

Value of Cessions to British India.

The Committee's valuation, leaving out the case of Hyderabad, comes, for the remaining four States, to a total sum of Rs. 36.96 * lakhs, and the disparity between this sum and our figure explains the reason why the Committee has adopted a formula which was otherwise open to serious objections. In fact the service that the States rendered to British India in surrendering extensive territories, was of far greater value than can be measured in terms of money. Apart from the strategic and economic value, these cessions enabled the rounding off of British Indian frontiers, and brought about economies of administration, improvements of lines of communication and transport, and facilities of trade and commerce to the advantage of the rest of British India. If the above mentioned States enter Federation and contribute to the Federal Revenues on a uniform basis with other federating units, without demanding the special services of the subsidiary force stipulated under their treaties of cession, then they would reasonably be entitled to demand a set off against their proportionate share

* Report of the Indian States Enquiry Committee of 1932, Chapter IV, Summary.

of the cost of the Federal Government of a sum of Rs. 4.87 crores nearly. And so far as the cost of defence is concerned, we have made it plain that the British Government, under its treaty obligations, cannot require the States to bear that burden.

Main Features of Government's Policy Towards the States.

Our brief resume of the problem of the financial adjustments between the States and the Government of India brings forward one main feature of the policy of the Government of India towards the States with the greatest force and that is, that whether the Indian States enter Federation or remain outside it, the Government of India do not seem prepared to admit the legitimate claims of the States which are based on their solemn treaties and engagements. All the Committees, appointed to investigate matters connected with the States, failed to give independent and impartial views and acted merely as the appendages of the Government of India. One is forced to conclude on a careful scrutiny of their Reports that it has been the studied policy of these Committees, acting under the influence of the Government of India, to complicate instead of clarify the problems involved by deliberate avoidance of the facts at issue and bringing into discussion irrelevant and superficial matters, so that the Indian States naturally feel bewildered at the intricacies of their cases and are at a loss to make out the actual implications of their entry into Federation. In the interests of brevity we have only referred to a few of the more important inequalities that the proposed scheme of Federation contemplates to impose or perpetuate and even these have not been exhaustively dealt with, but our examination, however inadequate it

might be, would, it is hoped, be enough to put the Princes on their guard against the pitfalls that can with reasonable certainty be foreseen if they Federate according to the proposed plan.

CHAPTER XIII

A SUMMARY AND SOME SUGGESTIONS

States' Freedom of Action.

In previous chapters we examined the scheme of Reforms from different angles, and it would be advisable to summarise our conclusions here so as to enable us to suggest a few practical solutions to the important problems involved. The first thing to be borne in mind is that the Indian States are autonomous principalities, in treaty relationship with the crown, and are perfectly free to choose whether they should join the Federation or remain outside it. It is necessary, therefore, that the conditions on which they are asked to Federate, should be sufficiently attractive and such that do not impose on them unjustifiable burdens. The ideal of an All-India Federation is highly desirable, but this fact alone does not justify the attainment of that ideal at any cost. On the other hand, the Rulers of the Indian States have made it plain that they are prepared to forego part of their sovereign rights if the Federation that is intended to be brought into being, is not merely a nominal Federation but one which enjoys real responsibility and power.

Weakness of the Federal Plan

In our criticism of the proposed plan we have shown that the transference of power to the Federal Legislature is not only nominal and inadequate,

but that the plan is throughout full of defects. The stipulations of the Government of India Act are based on forecasts that cannot be reasonably relied upon. The distribution of powers and resources is such that the arrangements do not promise for the satisfactory discharge of the respective functions of the Centre and the Units and that the plan does not eliminate causes of embarrassing clashes and disputes between the Centre and the Units or between the Federating units *inter se*. We have shown that the scheme is on the whole unworkable and ignores the commonly accepted principles of Public Finance and equity. The scheme of taxation does not promise relief to the poorer sections of the community, but advocates imposition of additional burdens on them, without providing for an equitable transference of purchasing power from the richer sections and is partial to particular communities and interests. Nor does the scheme of Reforms provide adequate remedies for India's pressing difficulties. With the inauguration of Federation, India will still be unable to stop the drain on its resources, the handicaps on its economic developments will still remain, and the Legislatures will still be unable to carry on unhindered their activities for the improvement of the economic efficiency of the people. In addition to this, India's currency will still remain on an unsatisfactory basis and the Federal Legislature will have no power to control the monetary policy of the Federation.

States' Entry into Federation Harmful to Themselves as well as to India as a Whole.

The fundamental defects, as mentioned above, are enough to withhold from the scheme the sympathy of the Princes whose sole aim and object in entering an All-India Federation is to advance the interests of the country

as a whole. And evidently they would be doing a dis-service to the country if they accept a scheme which aims at perpetuating and strengthening the existing disabilities and fails to admit the primary needs of India. It was their noble patriotism that made the conception of a greater India possible, but, unfortunately, that worthy sentiment was taken undue advantage of, by the designers and collaborators of the scheme, and the things that really mattered were lost sight of in a maze of superficial controversy and timorous handling of facts.

The Position of States will become Worse than Before.

Nor do the disadvantages of the scheme end there. It makes the position of the States themselves, far worse than it was ever before. We have shown how during the last hundred years, the Government of India had been making high-handed encroachments on the rights and privileges of the States, and how the interests of the States were always made to give way to those of the Government of India, in matters like railways, posts and telegraphs, customs, currency and coinage, cultivation of opium, use of the waters of rivers, and other forms of commercial and industrial development. In so far as these encroachments were in violation of the terms of their treaties, the Government of India could not justify them constitutionally, and the Indian States, although suffering under a sense of injustice, entertained the hope that at some stage of their negotiations their rights, inherent in their sovereignty and safeguarded by their treaties, would be duly recognised. The scheme of Reforms, however, evolves a new formula of the maintenance of *status quo*, so that all these disabilities will become constitutionally

recognised on the entry of the States into Federation. It has been pointed out that the real power will still remain in the hands of the British Government under the proposed Federation and what the Government was formerly doing unconstitutionally, by way of encroaching on the rights of the States, it will do under legal sanction.

Unsympathetic Attitude of the Government of India.

From the beginning of the talks on Reforms, the Government of India and His Majesty's Government have consistently refused to examine the general case of the States on its merits and, whenever they have examined it, they have always started on the assumption that whatever rights the States have lost, whether justly or unjustly, have been lost to them for good and cannot be claimed now. The few cases, in which the points of view of the States have been acceded to, concern matters of secondary importance and the decision did not adversely effect the benefits that the Government of India had come unconstitutionally to enjoy.

Defects of the Plan Summarised.

In the preceding chapter, we have referred to a few instances in which attempt has been made to prolong and continue such disabilities if the States enter Federation. The scheme makes stipulations of the nature that would bring the railways of the States under the domination of an external Authority, which would be solely under British control. Further, it ignores the claims of the States to a share in the profits of railways for the construction of which they granted land free of cost and does not recognise the fact that when such railways are taken over by the Government of India on the expiration of lease, with a railway company, the first option to purchase the section should rest with

the real owners of the property on which the railway is built.

With regard to Post and Telegraph, the States which have their Postal Departments worked by the British Indian Postal Department, will lose for ever, under the formula of *status quo*, their right to control their postal departments on their entering Federation, while with regard to other States the invidious restrictions on the development of their telegraph systems would still continue. The scheme recognises the right of the States to continue to levy customs at their land frontiers, but introduces a novel note of warning against the erection by States of protective barriers to the detriment of British India. The right of the maritime States to levy sea customs has been partly recognised, but the claim of inland States on customs revenue, realised from goods consumed in their territories, has been summarily rejected. Similarly, in regard to salt, under the formula of *status quo*, the disability of the States to raise revenue from this source will still continue. Financial adjustments on account of Ceded Territories have been suggested in a most inequitable manner. The alternative methods of valuation suggested by the States have been rejected by the Indian States Enquiry Committee, because they entailed considerable loss to British Indian revenues and the method that was eventually adopted is open to serious objections.

We have also shown that the scheme is highly iniquitous to the States in regard to the distribution of Federal burdens. It imposes on the States the responsibility for contribution towards pre-Federation debts of the Government of India, for the payment of pensions earned by the servants of the Government of India prior to the States' entry into

Federation and contemplates the States to share the cost of subventions to deficit British Indian Provinces and Departments. In regard to defence services, the scheme absolves the British Government from bearing the cost of protecting the States from internal trouble and external aggression, enjoined by the treaties, though the defence of India still remains under the effective control of the British Government and attempts to transfer, disproportionately, the burden of expenditure on defence, to the States. In addition to this, the scheme refuses to admit the claim of the States to take into account the military services rendered by the States in measuring their share of Federal burdens, although the existence, strength and efficiency of the Indian State Forces is recognised and their value in defence of the Empire in times of stress has been abundantly proved.

We have also made an attempt to find what the actual Federal burden of the States would be under the proposed scheme and what it should be according to the principles of justice and equity, and the rights and privileges enjoyed by the States under their treaties and engagements. It has been seen that the burden contemplated to be imposed on them is more than nine times their legitimate burden, and even if the States agree to bear equally, the pre-Federation liabilities of the Government of India, to contribute towards subvention to British Indian Provinces and Departments and the upkeep of certain departments from the benefits of which they are entirely excluded, and renounce their legal claim for military protection by the British Government, they would, as compared with British India, still be paying more than their population justifies.

States' Economic Claims Must be Satisfied Before they Enter Federation.

Under these circumstances, it would be advisable for the States to insist first on the due recognition of their rights and the abolition of the disabilities arbitrarily imposed on them by the Government of India. For Federation or no Federation, the consolidation of their own position should be the prime consideration, and a Federation, which fails to promise an improvement in the economic well-being of their people, is not an ideal to be desired at such an extraordinary cost. It has already been pointed out that the proposed scheme of Federation, not only falls far short of the vital requirements of India, but by bringing the States into it exposes them further to the disadvantages under which British India is suffering.

The recognition of all the rights of the States as mentioned in the previous chapters, and a further guarantee on the part of the British Government that these rights will not in future be encroached upon, should be the condition precedent to the States willingness to enter Federation. This will entail, as has been explained previously, the remission to States of a sum of about Rs. 14 crores for revenue from items like customs, salt and currency and coinage, which legitimately belongs to the States but which is appropriated by the Government of India. And after these legitimate claims of the States have been acceded to the question of their entering Federation might be considered.

Effect of Meeting States' Claims on British Indian Revenues.

The entry of the States into Federation need not impose on them a direct aggregate burden of more than Rs. $2\frac{1}{2}$ crores annually, in the beginning of its inauguration. The States should

not agree in principle, to subject themselves to external taxation, as it would be antagonistic to their treaty rights and sovereign status, and the best course for them would be to pay their share of the cost of Federal administration by cash contributions. It might be argued that if the large sum of Rs. 14 crores is credited to the States from the revenues of the Central Government, the latter would be placed in a very weak position and would be unable to meet direct demands on its revenues. We have shown that the military department of the Government of India is conducted in a very extravagant manner and even if it is run on the standards of the Army in the United Kingdom, it would be possible to reduce that expenditure by 10 to 15 crores. The reduction in the cost of the Indian Army alone, which has for long been called for, would make it possible to satisfy the legitimate claims of the States, although as pointed out before, further reductions in Central expenditure are possible, to quote a few, by means of general economies of administration, by curtailment of the present unnecessarily large establishments of departments, such as the Political Department, and by withholding the patronage of the Government from departments such as the Ecclesiastical, from the benefit of which 99 per cent. of the population of India is excluded.

Actual Burden on States. Objections to Suggested Scheme Examined.

According to our proposal, if the States enter Federation and pay by cash contributions the sum of Rs. 2½ crores that would not be the real measure of their actual burden. They would still be rendering military services to the country to the value of Rs. 9.6 crores according to the British Indian standard of military expenditure and the

States which ceded territories would be sharing the cost of the Central Government to the nominal value of Rs. 4.87 crores, apart from what the States' subjects would be paying invisibly Central taxes through income tax, excises and other taxes. Thus their aggregate contribution, towards the cost of the Central Government, after their claims in regard to customs, salt, coinage and currency and other matters have been satisfied, would still be Rs. 17 crores roughly, in terms of cash payments and the value of actual services rendered.

Another objection that may be brought forward against our proposal, is that it does not provide for the States bearing the future liabilities of the Federal Government, or the expenditure in serious exigencies such as war. In regard to the latter, it may be pointed out that it being impossible to foresee such exigencies no country, according to the practice of modern finance, makes much provision. In serious emergencies the Federal Government would raise funds through loans and additional taxation or commandeer services of various kinds. The Indian States have already pronounced their willingness to share in the responsibility for post-Federation loans, they would willingly provide adequate funds if necessity arises through emergency taxation on their subjects and their consistent attitude in the past gives ample assurance that in case of serious emergency they would devote their resources to the service of the Empire.

Difficulties of the Position if States Refuse to Federate. It would not be out of place here to refer briefly to the position of the Indian States if they refuse to enter Federation. It is essential for the unity of India that the States should come into an All-India Federation as co-equal partners in the con-

cern, and it has been generally recognised from the very beginning that without the participation of the States, the ideals of strength, stability and prosperity of the Indian Commonwealth cannot be attained. Our examination of the proposed scheme of reforms has shown that it is impossible for the States to join the Federation on the conditions suggested, as the sacrifices involved are far out of proportion to the ephemeral satisfaction of becoming united in name with the rest of India. If His Majesty's Government remains impervious to the demands of the Indian States to improve the clauses of the scheme to the satisfaction of the States, the result would be that, with the States holding back, the inauguration of the Federation may be further delayed. It would mean also the continuance of the imperfections of the present system, in which the Indian States have no constitutional relationship with British India, except in so far as the Government of India exercises the rights and obligations of the Crown towards the States.

Necessity for Establishment of Arbitral Machinery. The difficulties of the position arise from the fact that according to the treaties, the British Government is the sole arbitrator in disputes between the States on the one hand and British India on the other, and in these cases one party, to the dispute, viz., the Government of India, also acts as the arbitrator. According to the accepted principles of justice this is a very undesirable procedure, and there is a general impression among the States that very often justice is not done to their cause. The States have for a long time been demanding the establishment of a tribunal to which disputes between States and British India may be referred to for decision,

but so far the Government of India have failed to give due consideration to this demand. With the chances of the States coming into Federation getting remote, due to the impossible nature of the terms proposed, the necessity for such a tribunal may become more imperative. The establishment of such a tribunal will remove a grave defect from the present political organisation of the Indian Empire. It would not only provide satisfaction to the States during the time that Federation is kept in abeyance but even after the inauguration of the Federation it would be of great use in settling disputes that lie beyond the jurisdiction of the Federal Court,* and extend protection to States which might choose to remain outside the Federation. The composition of such tribunal, once the principle has been recognised, would not be difficult to be agreed upon. It may be either a permanent body of judges nominated jointly or separately by the States and the Government of India or it may be composed of impartial jurists chosen *ad hoc* by the parties to decide particular cases in dispute. Alternatively, mutual agreement might often be most easily reached, not by judicial procedure, but by methods of concilliation, through impartial and non-judicial persons.

* The original jurisdiction of the Federal Court will not extend to disputes to which a State is a party outside the Federal sphere—Government of India Act, section 204.

CHAPTER XIV

CONCLUSION

This study of the economic problems of the Indian States has raised many complex and controversial questions. It has been necessary to mention, and to examine, cases in which one group of interests has suffered for the benefit of another. The only purpose of this procedure has been to elucidate the present position. It should not be interpreted as an effort to put forward the case of one wronged party against another. For the different groups which have a permanent interest in the country should be considered as co-ordinate and complimentary to each other rather than in opposition and rival. But it is only when each appreciates the point of view of the others, that their respective difficulties can be resolved.

For example, as regards the economic relations between British India and the Indian States, it has been necessary to point out cases where the interests of the latter have been made subservient to those of the former. This has been done purely in order to bring out the inequalities of the present situation and to assist in finding a remedy for them. For the economic ties between British India and the Indian States are so strong that both are equally interested in the material well-being of each other. Just as an arrangement that is disadvantageous to

the whole of India would be unacceptable to both, so should an arrangement which is harmful to one be unwelcome to the other, not only in the interest of the other as a co-equal partner, but also in the interest of the country as a whole.

We have also pointed out the dissatisfaction of the Indian States at the loss of some of their fiscal and economic rights in the past and their fear of a further loss of such rights if they decide to enter an All-India Federation. These rights are based on their solemn treaties and engagements with the Crown, and the States are justified in claiming that the British Government should fulfil, in the letter and in the spirit, the pledges given under those treaties and engagements. So long as the British Crown remains Paramount in India, it cannot in justice withdraw from its responsibilities under those pledges. The Princes have from the outset expressed willingness to make sacrifices in the cause of Indian unity, in so far as the Federal scheme is not incompatible with their treaty position and their sovereign status, and they expect the British Government to protect and safeguard their position.

It is a generally accepted precept that some form of Federation is the only solution of India's political problems, and that an Indian Federation would differ from all other Federations in history by reason of the peculiar circumstances in which it would be set up. Owing to the diversity of races and cultures and the strongly conservative outlook of the people, the various British Indian Provinces and the Indian States are keen to maintain unimpaired their distinctive and traditional forms of political and economic organisations, and are most unwilling to merge their institutions into a uniform

and homogeneous system. The centrifugal tendencies inherent in the Indian body politic, in so far as they do not endanger Indian unity, have therefore to be seriously taken into account, and the past history of India, down to comparatively recent times, emphasises the necessity for caution and the risks involved in any attempt at excessive centralisation. This principle, however, has been generally recognised in the discussions on Indian Constitutional Reforms and was put into concrete shape through the proposed establishment of provincial autonomy in British India and the constitution of Sind and Orissa as separate Provinces.

But the scheme of Reforms, in its attempt to bring about some form of workable uniformity between such disparate units as the Indian States on the one hand, which are already autonomous principalities, and the British Indian Provinces on the other, which have so far been under the effective control of the British Government, contemplates not only the levelling up of the Provinces from their present status but the levelling down of the States from the position they enjoy under their treaties with the Crown. This has naturally caused resentment among the States. Our object has been to show that a further levelling up of the Provinces is possible, whereas a levelling down of the States is not only unacceptable to them, but is quite needless. The purposes of uniformity and unity may be better achieved by bringing the British Indian Provinces as far as possible into line with the Indian States, and restricting the powers and functions of the Central Government to questions which from their very nature can be better handled collectively.

Similarly, our remarks about the economic needs

of India have been made with the object of putting forward the Indian point of view, as briefly as possible, in order that the extent and importance of the work to be done for the improvement of the material welfare of the Indian people may be clearly appreciated. The suggestions made in this connection should not be interpreted as advocating the complete fiscal and economic isolation of India within the Empire. The task of ameliorating the lot of 352 million human beings living at the lowest level of comfort is so great that every penny which can be saved and every effort which can be diverted from less urgent objects must be devoted to the task. Our aim has been to emphasise the fact that in the controversies over minor and superficial matters this vital and fundamental question should not be lost sight of.

Lastly, our criticism of the Federal plan as it has evolved is not intended to be merely destructive. Our object has been to clarify the points of view of the Indian people in general and the Indian States in particular, with regard to economic matters, and to propose certain alterations in the proposed plan which would satisfy their legitimate demands and thus create a Federation in which both the sacrifices and the benefits would be fairly distributed. Our object is not to influence the States against the idea of Federation. It is rather to assist in estimating the financial and economic implications of the acceptance by the States of the proposed scheme. We have seen that the plan falls short of the minimum requirements of the Indian States and, in order to be acceptable to them, it must be altered in some essential details. This does not imply a complete rejection of the scheme. The purpose can be achieved by a revision

of the terms of the States entry into Federation, without damaging the general structure.

For the Government of India Act is in itself an immense work, the outcome of great labours undertaken over a number of years by some of the most influential statesmen in England and in India. It has succeeded in providing practical solutions to a number of complex and controversial political questions which previously appeared almost insolvable, and in face of almost insuperable difficulties, it has put forward, for the first time, a plan for the political unity of India.

The spirit in which the problem of Indian Constitutional Reform has throughout been handled by His Majesty's Government gives sufficient encouragement to the hope that the weaknesses that are apparent in the scheme will be suitably repaired. India has enjoyed for a century, under the benign guidance of Britain, the blessings of peace and security, and the natural sequel to that guidance is that India should continue to prosper and should now be united as a great nation, joining together in harmony and mutual goodwill its many races and cultures, and preserving in the ancient dynasties of its Princes all that is best in the Indian civilisation.

APPENDIX A

NOTE ON TREATIES, SANADS AND ENGAGEMENTS

The relations of the Indian States with the British Government are defined by their treaties, sanads and engagements. Their political status differs from case to case according to the terms of these documents.

Of the total number of States, forty have treaties with the British Government. The phraseology of the earlier treaties suggests that the deeds were executed between two powers standing on an equal footing. In the treaties concluded in and after 1818, however, the phrase "subordinate co-operation" is met with. For example, article 3 of the treaty with the Nawab of Bhopal, concluded in 1818, lays down that:

"The Nawab of Bhopal and his heirs and successors will act in subordinate co-operation with the British Government and will not have any connection with other Chiefs and States."

Sanad, in Indian political parlance, means the grant or recognition by the Crown of certain rights and privileges to be enjoyed by the Ruler of a State. A sanad is not necessarily unilateral and is commonly recognised to have the force of a treaty. For example, in the preamble of the sanad granted to His Highness the Maharaja of Patiala, in 1860, it has been specially mentioned that it was presented "by way of treaty."

An engagement is a deed executed by the Ruler of a State, binding himself, his heirs and successors in respect of certain obligations towards the British Government.

Below we give one typical specimen of each of these documents.

(i) Treaty with the Nizam of Hyderabad—1800.
(ii) Sanad granted to the Maharaja of Patiala—1860.
(iii) Engagement of the Raja of Pannah—1811.

(i) Treaty with The Nizam—1800.*

Treaty of Perpetual and General Defensive Alliance between the Honourable the English East India Company and His Highness the Nawab Nizam-ool-Moolk Asuph Jah Bahadoor, Soubadar of Deccan, his children, heirs and successors, settled by Captain James Achilles Kirkpatrick, Resident at the Court of His Highness, by virtue of the powers delegated to him by the Most Noble Richard, Marquis Wellesley, Knight of the Most Illustrious Order of St. Patrick, one of His Britannic Majesty's Most Honourable Privy Council, Governor-General in Council, appointed by the Honourable the Court of Directors of the said Honourable Company to direct and control all their affairs in the East Indies, and Governor-General in Council of all the British Possessions in the East Indies.

Whereas, by the blessing of God, an intimate friendship and union have firmly subsisted for a length of time between the Honourable English East India Company and His Highness the Nawab Nizam-ool-Moolk Asuph Jah Bahadoor, and have been cemented and strengthened by several Treaties of alliance, to the mutual and manifest advantage of both powers, who, with uninterrupted harmony and concord having equally shared the fatigues and dangers of war and the blessings of peace, are, in fact, become one and the same in interest, policy, friendship, and honour. The powers aforesaid averting to the complexion of the times have determined on principles of precaution and foresight and with a view to the effectual preservation of constant peace and tranquillity, to enter into a general defensive alliance, for the complete and reciprocal protection of their respective territories, together with those of their several allies and dependants, against the unprovoked aggressions or unjust encroachments of all or of any enemies whatever.

Article 1

The peace, union and friendship so long subsisting between the two States shall be perpetual; the friends and enemies of either shall be the friends and enemies of both, and the contracting parties agree that all the former Treaties and agreements between the two States now in force and not contrary to the tenor of this engagement shall be confirmed by it.

* Aitchison's Treaties, 1929 edition, Vol IX, pages 62–68.

Article 2

If any power or State whatever shall commit any act of unprovoked hostility or aggression against either of the contracting parties, or against their respective dependents or allies, and, after due representations, shall refuse to enter into amicable explanation, or shall deny the just satisfaction or indemnity which the contracting parties shall have required, then the contracting parties will proceed to concert and prosecute such further measures as the case shall appear to demand.

For the more distinct explanation of the true intent and effect of the agreement, the Governor-General in Council, on behalf of the Honourable Company, hereby declares that the British Government will never permit any power or State whatever to commit with impunity any act of unprovoked hostility or aggression against the rights or territories of His Highness the Nizam, but will at all times maintain and defend the same, in the same manner as the rights and territories of the Honourable Company are now maintained and defended.

Article 3

With a view to fulfil this Treaty of general defence and protection, His Highness the Nawab Asuph Jah agrees that two battalions of sepoys and one regiment of cavalry, with a due proportion of guns and artillery men shall be added in perpetuity to the present permanent subsidiary force of six battalions of sepoys, of one thousand firelocks each, and one regiment of cavalry, five hundred strong (with their proportion of guns and artillery men), so that the whole subsidiary force furnished by the Honourable East India Company to His Highness shall henceforward consist of eight battalions of sepoys (or eight thousand firelocks) and two regiments of cavalry (or one thousand horse) with their requisite complement of guns, European artillery men, lascars, and pioneers, fully equipped with warlike stores and ammunition, which force is to be stationed in perpetuity in His Highness's territory.

Article 4

The pay of the above-mentioned additional force shall be calculated at the rate of the pay of the existing subsidiary force, and shall commence from the day of the entrance of the said force into His Highness's territories.

Article 5

For the regular payment of the whole expense of the said augmented subsidiary force (consisting of eight thousand infantry, one thousand cavalry, and their usual proportion of artillery) His Highness the Nawab Asuph Jah hereby assigns and cedes to the Honourable the East India Company, in perpetuity all the territories acquired by His Highness, under the Treaty of Seringapatam on the 18th March, 1792, and also all the territories acquired by His Highness under the Treaty of Mysore on the 22nd June, 1799, according to the Schedule annexed to this Treaty.

Article 6

Certain of the territories ceded by the foregoing Article to the Honourable Company being inconvenient, from their situation to the northward of the river Toombuddrah, His Highness the Nawab Asuph Jah, for the purpose of rendering the boundary line of the Honourable Company's possessions a good and well-defined one, agrees to retain the districts in question, namely Copul, Gujjunderghur and others (as marked in the annexed schedule) in his own possession; and in lieu thereof assigns and cedes in full and in perpetuity to the Honourable Company the district of Adoni, together with whatever other territory His Highness may be possessed of, or is dependent on His Highness's Government, to the south of the Toombuddrah, or to the south of the Kistnah, below the junction of those two rivers.

Article 7

The territories to be assigned and ceded to the Honourable Company by the fifth Article, or in consequence of the exchange stipulated in the sixth Article, shall be subject to the exclusive management and authority of the said Company and of their officers.

Article 8

Whereas the actual produce of a considerable portion of the districts ceded to the Honourable Company by Article five is ascertained and acknowledged to be greatly inferior to their nominal value, as specified in the Schedule annexed to this Treaty, and the said districts cannot be expected for a long course of years to reach to their said nominal value; and

whereas differences might hereafter arise between the contracting parties with respect to the real value of the same and the friendship and harmony happily subsisting between the contracting parties be disturbed by discussion relating to the adjustment of accounts of the produce and value of the said districts ; in order to preclude all causes of any such future difference or discussion between the two States, the said East India Company agrees to accept the said districts (with the reservation stated in the sixth Article) as a full and complete satisfaction for all demands on account of the pay and charges of the said subsidiary force ; and therefore to whatever extent or for whatever length of time the actual produce of the said districts shall prove inadequate to the amount of the subsidy payable by His Highness on account of the said subsidiary force, no demands shall ever be made by the Honourable Company upon the Treasury of His Highness on account of any such deficiency or on account of any failure in the revenues of the said districts, arising from unfavourable seasons, from calamity of war, or any other cause. His Highness the Nizam, on his part, with the same friendly views hereby renounces all claim to any arrears or balance which may be due to him from the said districts at the period of their cession to the Honourable Company, and also to any eventual excess in the produce of the said districts, beyond the amount of the subsidy payable by His Highness on account of the said subsidiary force ; the true intention and meaning of this Article being that the cession of the said districts and the exchange stipulated in the sixth Article shall be considered as a final close and termination of accounts between the contracting parties with respect to the charges of the said subsidiary force.

Article 9

After the conclusion of this Treaty, and as soon as the British Resident shall signify to His Highness Asuph Jah that the Honourable Company's officers are prepared to take charge of the districts ceded by the fifth Article, His Highness will immediately issue the necessary perwannahs or orders to his officers to deliver over charge of the same to the officers of the Company ; and it is hereby stipulated and agreed that all collections made by His Highness's officers subsequent to the date of the said perwannahs or orders, and before the officers of the Company shall have taken charge of the said

districts, shall be carried to the account of the Honourable Company.

Article 10

All forts situated within the districts to be ceded as aforesaid shall be delivered to the officers of the Honourable Company with the said districts ; and His Highness the Nawab Asuph Jah engages that the said forts shall be delivered to the Honourable Company as nearly as possible in the same state as that in which His Highness received them.

Article 11

His Highness the Nawab Asuph Jah will continue to pay the subsidy of the former subsidiary force and also that of the additional troops from his treasury in the same manner as hitherto observed until the Honourable East India Company's officers shall have obtained complete possession from His Highness's officers of the country ceded to the said Company by the fifth Article. The Company will not claim any payments of subsidy from His Highnesses treasury after their officers shall have obtained possession of the said districts from the officers of His Highness.

Article 12

The contracting parties will employ all practicable means of concilliation to prevent the calamity of war ; and for that purpose will at all times be ready to enter into amicable explanations with other States and to cultivate and improve the general relations of peace and amity with all the powers of India, according to the true spirit and tenor of this defensive Treaty. But if a war should unfortunately break out between the contracting parties and any other power whatever, then His Highness the Nawab Asuph Jah engages that, with the reserve of two battalions of sepoys which are to remain near His Highness's person, the residue of the British subsidiary force (consisting of six battalions of sepoys and two regiments of cavalry with artillery) joined by six thousand infantry and nine thousand horse of His Highness's own troops, and making together an army of twelve thousand infantry and ten thousand cavalry, with their requisite train of artillery, and warlike stores of every kind, shall be immediately put in motion for the purpose of opposing the enemy ; and His Highness

likewise engages to employ every further effort in his power for the purpose of bringing into the field as speedily as possible the whole force which he may be able to supply from his dominions; with a view to effectual prosecution and speedy termination of the said war, the Honourable Company in the same manner engage on their part, in this case, to employ in active operations against the enemy the largest force which they may be able to furnish over and above the said subsidiary force.

Article 13

Whenever war shall appear probable His Highness the Nawab Asuph Jah engages to collect as many banjarahs as possible, and to store as much grain as may be practicable in his frontier garrisons.

Article 14

Grain and all other articles of consumption and provision, and all sorts of materials for wearing apparel, together with the necessary quantity of cattle, horses and camels required for the use of the subsidiary force, shall, in proportion to its present augmentation be, as heretofore, entirely exempted from duties.

Article 15

As by the present Treaty the union and friendship of the two States are so firmly cemented as that they may be considered as one and the same, His Highness the Nizam engages neither to commence nor to pursue in future any negotiations with any other power whatever without giving previous notice, and entering into mutual consultation with the Honourable East India Company's Government, and the Honourable Company's Government on their part hereby declare that they have no manner of concern with any of His Highness's children, relations, subjects or servants with respect to whom His Highness is absolute.

Article 16

As by the present Treaty of general defensive alliance, mutual defence and protection against all enemies are established, His Highness the Nawab Asuph Jah consequently engages never to commit any act of hostility or aggression against any power whatever; and in the event of any differ-

ences arising whatever adjustment of them the Company's Government, weighing matters in the scale of truth and justice, may determine shall meet with full approbation and acquiescence.

Article 17

By the present Treaty of general defensive alliance, the ties of union, by the blessing of God, are drawn so close that the friends of one party will be henceforward considered as the friends of the other, and the enemies of the one party as the enemies of the other ; it is therefore hereby agreed that if in the future the Shorapore or Gudwall zemindars, or any other subjects or dependents of His Highness's Government should withhold the payment of the Circar's just claims upon them, or excite rebellion or disturbance, the subsidiary force, or such proportion thereof as may be requisite, after the reality of the offence shall be duly ascertained, shall be ready, in concert with His Highness's own troops, to reduce all such offenders to obedience. And the interests of the two States being now in every respect identified, it is further mutually agreed that if disturbances shall at any time break out in the districts ceded to the Honourable Company by this Treaty, His Highness the Nawab Asuph Jah shall permit such a proportion of the subsidiary troops as may be requisite to be employed in quelling the same within the said districts. If disturbances shall at any time break out in any part of His Highness's dominions contiguous to the Company's frontier, to which it might be inconvenient to detach any proportion of the subsidiary troops, the British Government in like manner if required by His Highness the Nawab Asuph Jah, shall direct such proportion of the troops of the Company as may be most conveniently stationed for the purpose to assist in quelling the said disturbances within His Highness's dominions.

Article 18

Whereas, by the favour of Providence, a perfect union, harmony and concord, have long and firmly subsisted between the Honourable East India Company, His Highness the Nawab Asuph Jah, His Highness the Peishwa Rao Pundit Prudhan, and Rajah Raghojee Bhooslah, therefore should His Highness Rao Pundit Prudhan and Rajah Raghojee Bhooslah, or either of them express the desire to participate in the benefits of the present defensive alliance, which is

calculated to strengthen and perpetuate the foundations of general tranquillity, the contracting parties will readily admit both or either of the said powers to be members of the present alliance, on such terms and conditions as shall appear just and expedient to the contracting parties.

Article 19

The contracting parties being actuated by a sincere desire to promote and maintain general tranquillity, will admit Dowlut Rao Sindia to be a party to the present Treaty whenever he shall satisfy the contracting parties of his disposition to cultivate the relations of peace and amity with both States, and shall give such securities, for the maintenance of tranquillity as shall appear to the contracting parties to be sufficient.

Article 20

This treaty, consisting of twenty Articles, being this day settled by Captain James Achilles Kirkpatrick, with the Nawab Asuph Jah Bahadoor, Captain Kirkpatrick has delivered one copy thereof in English and Persian, signed and sealed by himself, to the said Nawab, who, on his part, has also delivered one copy of the same, duly executed by himself; and Captain Kirkpatrick, by virtue of special authority given to him on that behalf by the Most Noble the Governor-General in Council, hereby declares the said Treaty to be in full force from the date hereof, and engages to procure and deliver to His Highness in the space of thirty days a copy of the same from the Governor-General in Council, in every respect the counterpart of that executed by himself; and on the delivery of such copy the Treaty executed by Captain Kirkpatrick shall be returned; but the additional subsidiary force specified in the third Article shall be immediately required by His Highness the Nizam and furnished by the Honourable Company, and all the other Articles shall be in full force from this time.

Signed, sealed and exchanged at Hyderabad on the 12th October, Anno Domini 1800, or 22nd Jemmadee-ul-Awul, Anno Hegiree 1215.

J. A. KIRKPATRICK,
Resident.

His Highness's Mark.

His Highness's Seals.

The Schedule annexed to this Treaty gives a list of Talooks acquired by the Treaty of Seringapatam, those acquired by the Treaty of Mysore and of districts situated north of the Toombaddrah which under Article IV of the Treaty remain with His Highness the Nizam.

(ii) Sanad Granted to The Maharaja of Patiala—1860

Translation of a Sanad regarding possession of territory granted to the Maharaja of Patiala, by His Excellency the Viceroy and Governor-General of India, dated the 5th May, 1860.

Whereas since the day of the rise of the sun of the everlasting British Empire and supremacy in this country of India, the acts of loyalty and devotion to Government of Farzand-i-Khas-i-Daulat-i-Ingliscia, Mansur-i-Zaman, Amir-ul-Umara, Maharaja Dhiraj, Rajesar Sri Maharaja Rajagan Naraindar Singh Mahindar Bahadur and ancestors and predecessors of the said Maharaja on occasions of War and battle, etc., have fully become conspicuous; accordingly as a reward for these good services and aid and assistance with troops and supplies, etc., they have always been distinguished and exalted by the powerful British Government by being granted territory and titles and raised in degrees of honour and dignity. Particularly in the year 1857 A.D. during the days of the insurrection and mutiny of wretched persons the Maharaja Sahib Mahindar Bahadur rendered and displayed worthy and conspicuous services which surpassed his previous achievements. Therefore, in recognition of such approved services, the powerful British Government, by way of Royal favour and kindness, has conferred on the Maharaja Sahib Mahindar Bahadur, some territory and additional title for generation after generation and descendent after descendent. The Maharaja Sahib Bahadur has applied for a renewal of the sanad regarding his ancestral territory as well as that granted to him previously and now by the powerful Government. In view of this His Excellency the Viceroy and Governor-General is pleased to approve of the grant of the present sanad by way of treaty with the conditions entered below as a memorable document:

Clause I

According to the list annexed to this Sanad, the Maharaja Sahib Bahadur and his successors will, in the present, and future time, exercise sovereignty, with peace of mind and in perfect security, in accordance with ancient custom, over his ancestral possessions and the dominions bestowed on him by the British Government and consider the territory granted to him by the British Government in recognition of his good services as his ancestral territory with all powers and rights, internal and external. All powers great and small, administrative and criminal and in respect of the produce of revenue, etc., will, as heretofore, remain permanently vested in the power and control of the Maharaja Sahib Bahadur, and his successors generation after generation and descendent after descendent, in present and in future for ever and in perpetuity; and (his) brothers, zaildars, Chararumians (persons entitled to a fourth share), feudatories, Jagirdars and dependents will, according to old custom, obey the orders and commands of the Maharaja Sahib Bahadur and his successors.

Clause II

The powerful British Government will not demand or exact anything on account of nazarana, land revenue, administrative or criminal cesses, compensation on account of troops, etc., or on any other plea whatever, in the present or the future, from the Maharaja Sahib Bahadur, his successors, dependents, brothers, Zaildars, Jagirdars, Charaumains or feudatories except as provided in Clause III.

Clause III

As an additional Royal favour and having regard to the loyalty and devotion of the Maharaja Sahib Mahindar Bahadur the powerful Government desires that his territory should always remain under the sovereignty of his family. Therefore the power of adoption is granted for ever to the said Maharaja Sahib and his successors so that in case there is no lineal descendant they may, for the purpose of perpetuating the line of Chiefship, adopt a successor, according to their own choice from among the descendants of the Phulkian family. The powerful Government cordially accepts and agrees to this. The powerful Government also

grants permission that in case—may God forbid—the Maharaja or the masnad should die suddenly, without leaving a lineal descendant or an adopted successor, the Raja Sahib of Jind and the Raja Sahib of Nabha, in concert with the Commissioner Sahib Bahadur, may select a successor from among the Phulkian family and place him on the masnad. In that case nazarana to the extent of one-third of the income of the State for one year will be paid into the treasury of the British Government by the Patiala State.

Clause IV

In the year 1847, an agreement regarding the infliction of capital punishment after reference to the Commissioner Sahib Bahadur and the prevention of female infanticide, sati and slavery, etc., was obtained from the said Maharaja Sahib. That is now cancelled, and absolute power by all means regarding the infliction of capital punishment, etc., in his territory, according to old customs, is granted to the Maharaja Sahib Mahindar Bahadur and his successors. Similarly, with regard to punishing subjects of the powerful British Government, committing crime and apprehended in the territory of the Patiala State, the Maharaja Sahib Mahindar Bahadur and his successors are granted power in accordance with the provisions of the despatch No. 3, dated 1st June, 1836, from the Honourable Court of Directors at the capital, London. The Maharaja Sahib Bahadur will exert himself by every possible means in promoting the welfare of his people and the happiness of his subjects and redressing the grievances of the oppressed and injured in the proper way. He will prevent in his territory female infanticide, sati and slavery, which are opposed to the principles of justice and equity towards the people, in accordance with the provisions of the former sanad. In the event of any person at any time committing the above mentioned prohibited crimes without the knowledge of the officials of the Maharaja Sahib Bahadur, the latter will inflict deterrent punishment on him.

Clause V

The Maharaja Sahib and his successors will never fail in their faithful and devoted obedience to the Empress, Queen of England, and her successors.

Clause VI

If at any time any hostile troops with mischievous intention should appear in his neighbourhood from any side or direction, the Maharaja Sahib Bahadur will along with his existing force sincerely and loyally co-operate with the English in repelling them in accordance with past practice. He will exert himself, to the utmost of his resources, in providing supplies, grains, etc., and transport according to the requisitions of British officers.

Clause VII

Complaints against the Maharaja Sahib from his subjects, Maufidars, Jagidarrs, dependents, brothers and servants, etc., will on no account be listened to by the powerful British Government.

Clause VIII

With regard to internal management and the affairs of brothers, household and relatives, the rules and arrangements made by the Maharaja Sahib Mahindar Bahadur will stand and always be respected and not interferred with by the powerful British Government.

Clause IX

On the occasion of the construction and repairs of roads in his territory, the Maharaja Sahib Bahadur will, in accordance with the written communication of the Commissioner Sahib Bahadur, arrange from his own territory, through Kardars and officials of Parganas, according to former custom, for the materials required, on payment; and at the time of the construction of a railroad or other roads, the Maharaja Sahib Bahadur will concede, free of charge, land that comes under the roads in the same way as he has done for the Imperial road.

Clause X

The Maharaja Sahib Bahadur will always pursue the course of obedience and loyalty to the powerful Government who will likewise continue to uphold his honour, respect, rank and dignity in the manner it is done at present.

(The annexure gives a list of ancestral territories of His Highness the Maharaja of Patiala and of those bestowed by the British Government).

From Aitchison's Treaties—1929 edition,
Vol. I, pages 161-165.

(iii) Engagement of The Rajah of Pannah—1811

Article 1

I hereby promise and bind myself on no occasion to unite with external or internal enemies of the Honourable Company in Bundelcund, and to be ever obedient and submissive to the will and commands of the British Government in all things.

Article 2

If anyone of my children, brothers, or relations, excite, sedition or disturbance in the British territories or possessions or the territories or possessions of any of the chiefs in allegiance to the British Government, I engage to do everything in my power to prevent and to restrain them ; and in the case of their persisting in such conduct, I engage to unite my force with the British troops in the punishment and suppression of such persons.

Article 3

If any of the subjects of the British Government shall fly, and take refuge in my territories, on application from the officers of the British Government, I will deliver them up to the British Government.

Article 4

I further engage that I will never harbour or give protection in my country to persons accused or suspected of robbery or theft ; that if a robbery be committed, or the property of merchants or travellers be stolen in any of the villages subject to my authority, I will render the inhabitants of that village responsible for the restitution, or value of the property stolen or robbed, or for the seizure and delivery of the thieves or robbers ; and in general, that murderers and all other persons amenable to the criminal jurisdiction of the British Government for crimes committed in the British possessions, who may take refuge in my districts, shall be immediately seized and handed over to the British authority in Bundelcund.

Article 5

If any of the surrounding chiefs rebel against the British authority, although they be my near relations, I engage to

abstain from any manner of friendly intercourse with such chiefs, and not to harbour or give protection in my country to them or any of their relations.

Article 6

I engage not to enter into quarrels or disputes with any chief who is obedient or submissive to the British Government, and if at any time a quarrel or dispute arise between me and any of the other dependents of the British Government, in either case I promise to submit the cause of such dispute for the decision of the British Government.

Article 7

I engage to guard all the passes through the Ghats under my authority, so as to prevent marauders, plunderers, and ill-disposed persons, from ascending or descending the Ghats, or from entering the British territories through any of those passes, and if any neighbouring Chief or Leader should meditate an incursion into the British territory through my possessions, or those of the Chiefs in allegiance thereto, I engage to furnish the Officers of the British Government with information of the circumstances before his approach to the neighbourhood of my territory, and to exert my utmost efforts to obstruct his progress.

Article 8

Whenever the British troops shall have occasion to ascend the Ghats through any of the passes subject to my authority, I agree not only not to obstruct or impede their progress, but to depute respectable and intelligent persons to conduct them by the most convenient route, and to furnish them with the necessary supplies so long as they remain within or in the vicinity of my possessions.

Article 9

Whereas Gopal Sing and Rao Himmut Sing of Murrcadah, and Zalim Sing of Burdwaho and Puddum Sing of Shingah, and Gotee Jumadar, and Manickjee of Mabut Gowha, have rebelled against the British Government, are guilty of marauding and plundering in the territories of that Government, I hereby declare that I will never have any intercourse with

the above mentioned rebels ; but, on the contrary, whenever I shall hear of any of their joint or separate depredation in the territories of the British Government, or any of its dependents, I engage to attack the aggressor or aggressors, and to the utmost of my power punish them, and in the event of any of them being seized, I engage to deliver them up to the British Government.

Article 10

Whereas between me and the Rajahs and Chiefs of Bundelcund there existed many disputed claims concerning many villages, which disputes have been adjusted and settled by the decision of the British Government, and as now there is no disputed point or cause of difference remaining, I hereby therefore declare and promise, that hereafter I will not dispute or quarrel with any Rajah or Chief on account of any village or lands. If any Rajah or Chief shall dispute or quarrel with me on account of any village or lands claimed, I engage to submit the same to the British Government, and to abide by its decision, and not to dispute or quarrel about the point myself.

Article 11

I engage that one of my confidential servants shall always be in attendance as a vakeel on the Officer of the British Government in this province for the purpose of executing his orders, and in the event of such vakeel being from any reason disapproved of by the said Officer, I agree immediately to appoint another in his stead.

22nd March, 1811.

From Aitchinson's Treaties,
Vol. V, pages 116-117.

APPENDIX B

List of Federal and Provincial Subjects as given in the Seventh Schedule of the Government of India Act.

LIST I

FEDERAL LEGISLATIVE LIST

1. His Majesty's naval, military and air forces borne on the Indian establishment and any other armed force raised in India by the Crown, not being forces raised for employment in Indian States or military or armed police maintained by Provincial Governments ; any armed forces which are not forces of His Majesty, but are attached to or operating with any of His Majesty's naval, military or air forces borne on the Indian establishment ; central intelligence bureau ; preventive detention in British India for reasons of State connected with defence, external affairs, or the discharge of the functions of the Crown in its relations with Indian States.

2. Naval, military and air force works ; local self-government in cantonment areas (not being cantonment areas of Indian State troops), the regulation of house accommodation in such areas, and, within British India, the delimitation of such areas.

3. External affairs ; the implementing of treaties and agreements with other countries ; extradition, including the surrender of criminals and accused persons to parts of His Majesty's dominions outside India.

4. Ecclesiastical affairs, including European cemeteries.

5. Currency, coinage and legal tender.

6. Public debt of the Federation.

7. Posts and telegraphs, including telephones, wireless, broadcasting, and other like forms of communication ; Post Office Savings Bank.

8. Federal Public Services and Federal Public Service Commission.

9. Federal pensions, that is to say, pensions payable by the Federation or out of Federal revenue.

10. Works, lands and buildings vested in or in the possession of His Majesty for the purposes of the Federation (not being naval, military or air force works), but as regards property situate in a Province subject always to Provincial legislation, save in so far as Federal law otherwise provides, and, as regards property in a Federated State held by virtue of any lease or agreement with that State, subject to the terms of that lease or agreement.

11. The Imperial Library, the Indian Museum, the Imperial War Museum, the Victoria Memorial, and any similar institution controlled or financed by the Federation.

12. Federal agencies and institutes for the following purposes, that is to say, for research, for professional or technical training, or for the promotion of special studies.

13. The Benares Hindu University and the Aligarh Muslim University.

14. The Survey of India, the Geological, Botanical and Zoological Surveys of India ; Federal meterological organisations.

15. Ancient and historical monuments ; archæological sites and remains.

16. Census.

17. Admission in to, and emigration and expulsion from, India, including in relation thereto the regulation of the movements in India of persons who are not British subjects domiciled in India, subjects of any Federated State, or British subjects domiciled in the United Kingdom ; pilgrimages to places beyond India.

18. Port quarantine ; seamen's and marine hospitals, and hospitals connected with port quarantine.

19. Import and export across customs frontiers as defined by the Federal Government.

20. Federal railways ; the regulation of all railways other than minor railways in respect of safety, maximum and minimum rates and fares, station and service terminal charges, interchange of traffic and the responsibility of railway administrations as carriers of goods and passengers ; the regulation of minor railways in respect of safety and responsi-

bility of the administrations of such railways as carriers of goods and passengers.

21. Maritime shipping and navigation, including shipping and navigation on tidal waters ; Admiralty jurisdiction.

22. Major ports, that is to say, the declaration and delimitation of such ports, and the constitution and powers of Port Authorities therein.

23. Fishing and fisheries beyond territorial waters.

24. Aircraft and air navigation ; the provision of aerodromes ; regulations and organisation of air traffic and aerodromes.

25. Lighthouses, including lightships, beacons and other provision for the safety of shipping and aircraft.

26. Carriage of passengers and goods by sea or by air.

27. Copyright, inventions, designs, trademarks and merchandise marks.

28. Cheques, bills of exchange, promissory notes and other like instruments.

29. Arms, firearms, ammunition.

30. Explosives.

31. Opium, so far as regards cultivation and manufacture, or sale for export.

32. Petroleum and other liquids and substances declared by Federal law to be dangerously inflammable, so far as regards possession, storage and transport.

33. Corporations, that is to say, the incorporation, regulation and winding-up of trading corporations, including banking, insurance and financial corporations, but not including corporations owned or controlled by a Federated State and carrying on business only within that State or co-operative societies, and of corporations, whether trading or not, with objects not confined to one unit.

34. Development of industries, where development under Federal control is declared by Federal law to be expedient in the public interest.

35. Regulations of labour and safety in mines and oil-fields.

36. Regulations of mines and oilfields and mineral development to the extent to which such regulation and development under Federal control is declared by Federal law to be expedient in the public interest.

37. The law of insurance, except as respects insurance undertaken by a Federated State, and the regulation of the conduct insurance business, except as respects business undertaken by a Federated State ; Government insurance, except so far as undertaken by a Federated State, or, by virtue of any entry in the Provincial Legislative List or the Concurrent Legislative List, by a Province.

38. Banking, that is to say, the conduct of banking business by corporations other than corporations owned or controlled by a Federated State and carrying on business only within that State.

39. Extension of the powers and jurisdiction of members of a police force belonging to any part of British India to any other area in another Governor's Province or Chief Commissioner's province, but not so as to enable the police of one part to exercise powers and jurisdiction elsewhere without the consent of the Government of the Province or the Chief Commissioner, as the case may be. Extention of powers and jurisdiction of members of a police force belonging to any unit to railway areas outside that unit.

40. Elections to the Federal Legislature, subject to the provisions of this Act and of any Order in Council made thereunder.

41. The salaries of the Federal Ministers, of the President and Vice-President of the Council of State and of the Speaker and Deputy Speaker of the Federal Assembly ; the salaries, allowances and privileges of the members of the Federal Legislature ; and, to such extent as is expressly authorised by Part II of this Act, the punishment of persons who refuse to give evidence or produce documents before Committees of the Legislature.

42. Offences against laws with respect to any of the matters in this list.

43. Inquiries and statistics for the purposes of any of the matters in this list.

44. Duties of customs, including export duties.

45. Duties of excise on tobacco and other Commodities and articles manufactured or produced in India, except :

(*a*) alcoholic liquors for human consumption ;

(*b*) opium, Indian hemp and other narcotic drugs and narcotics ; non-narcotic drugs ;

(*c*) medicinal and toilet preparations containing alcohol, or any substance included in sub-paragraph (*b*) of this entry.

46. Corporation tax.

47. Salt.

48. State lotteries.

49. Naturalisation.

50. Migration within India from or into a Governor's Province or a Chief Commissioner's Province.

51. Establishment of standards of weight.

52. Ranchi European Mental Hospital.

53. Jurisdiction and powers of all courts, except the Federal Court, with respect to any of the matters in this list and, to such extent as is expressly authorised by part IX of this Act. The enlargement of the appellate jurisdiction of the Federal Court, and the conferring thereon of supplemental powers.

54. Taxes on income other than agricultural income.

55. Taxes on the capital value of the assets, exclusive of agricultural land, of individuals and companies; taxes on the capital of companies.

56. Duties in respect of seccession to property other than agricultural land.

57. The rates of stamp duty in respect of bills of exchange, cheques, promissory notes, bills of lading, letters of credit, policies of insurance, proxies and receipts.

58. Terminal taxes on goods or passengers carried by railway or air; taxes on railway fares and freights.

59. Fees in respect of any of the matters in this list, but not including fees taken in any Court.

LIST II

PROVINCIAL LEGISLATIVE LIST

1. Public order (but not including the use of His Majesty's naval, military or air forces in aid of the civil power); the administration of justice; constitution and organisation of all courts, except the Federal Court, and fees taken therein; preventive detention for reasons connected with the maintenance of public order; persons subjected to such detention.

2. Jurisdiction and powers of all courts, except the Federal Court, with respect to any of the matters in this list. procedure in Rent and Revenue Courts.

3. Police, including railway and village police.

4. Prisons, reformatories, Borstal institutions and other institutions of a like nature, and persons detained therein; arrangements with other units for the use of prisons and other institutions.

5. Public debt of the Province.

6. Provincial Public Services and Provincial Public Service Commissions.

7. Provincial pensions, that is to say, pensions payable by the Province or out of Provincial revenues.

8. Works, lands and buildings vested in or in the possession of His Majesty for the purposes of the Province.

9. Compulsory acquisition of land.

10. Libraries, museums and other similar institutions controlled or financed by the Province.

11. Elections to the Provincial Legislature, subject to the provisions of this Act and of any Order in Council made thereunder.

12. The salaries of the Provincial Ministers, of the Speaker and Deputy Speaker of the Legislature Assembly, and, if there is a Legislative Council, of the President and Deputy President thereof; the salaries, allowances and privileges of the members of the Provincial Legislature; and, to such extent as is expressly authorised by Part III of this Act, the punishment of persons who refuse to give evidence or produce documents before Committees of the Provincial Legislature.

13. Local government, that is to say, the constitution and powers of municipal corporations, improvement trusts, district boards, mining settlement authorities and other local authorities for the purpose of local self-government or village administration.

14. Public health and sanitation; hospitals and dispensaries; registration of births and deaths.

15. Pilgrimages, other than pilgrimages to places beyond India.

16. Burials and burial grounds.

17. Education.

18. Communications, that is to say, roads, bridges, ferries, and other means of communication not specified in

List I ; minor railways subject to provisions of List I with respect to such railways ; municipal tramways ; ropeways ; inland waterways and traffic thereon subject to the provisions of List III with regard to such waterways ; ports, subject to the provisions in List I with regard to major ports ; vehicles other than mechanically propelled vehicles.

19. Water, that is to say, water supplies, irrigation and canals, drainage and embankments, water storage and water power.

20. Agriculture, including agricultural education and research, protection against pests and prevention of plant diseases ; improvement of stock and prevention of animal diseases ; veterinary training and practice ; pounds and the prevention of cattle trespass.

21. Land, that is to say, rights in or over land, land tenures, including the relation of landlord and tenant, and the collection of rents ; transfer and devolution of agricultural land ; land improvement and agricultural loans ; colonization ; Courts of Wards ; encumbered and attached estates ; treasure trove.

22. Forests.

23. Regulation of mines and oilfields and mineral development subject to the provisions of List I with respect to regulation and development under Federal control.

24. Fisheries.

25. Protection of wild birds and wild animals.

26. Gas and gasworks.

27. Trade and commerce within the Province ; markets and fairs ; money lending and money lenders.

28. Inns and innkeepers.

29. Production, supply and distribution of goods ; development of industries, subject to the provisions in List I with respect to the development of certain industries under Federal control.

30. Adulteration of foodstuffs and other articles ; weights and measures.

31. Intoxicating liquors and narcotic drugs, that is to say, the production, manufacture, possession, transport, purchase and sale of intoxicating liquors, opium and other narcotic drugs, but subject, as respects opium, to the provisions of List I and, as respects poisons and dangerous drugs, to the provisions of List III.

32. Relief of the poor; unemployment.

33. The incorporation, regulation, and winding-up of corporations other than corporations specified in List I; unincorporated trading, literary, scientific, religious and other societies and associations; co-operative societies.

34. Charities and charitable institutions; charitable and religious endowments.

35. Theatres, dramatic performances and cinemas, but not including the sanction of cinematograph films for exhibition.

36. Betting and gambling.

37. Offences against laws with respect of any of the matters in this list.

38. Inquiries and statistics for the purpose of any of the matters in this list.

39. Land revenue, including the assessment and collection of revenue, the maintenance of land records, survey for revenue purposes and records of rights, and alienation of revenue.

40. Duties of excise on the following commodities and articles manufactured or produced in the Province and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India:

(*a*) alcoholic liquors for human consumption;
(*b*) opium, Indian hemp and other narcotic drugs and narcotics; non-narcotic drugs.
(*c*) medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (*b*) of this entry.

41. Taxes on agricultural income.

42. Taxes on lands and buildings, hearths and windows.

43. Duties in respect of succession to agricultural land.

44. Taxes on mineral rights subject to any limitations imposed by any Act of the Federal Legislature relating to mineral development.

45. Capitation taxes.

46. Taxes on professions, trades, callings and employments.

47. Taxes on animals and boats.

48. Taxes on the sale of goods and on advertisements.

49. Cesses on the entry of goods into a local area for consumption, use or sale therein.

50. Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling.

51. The rates of stamp duty in respect of documents other than those specified in the provisions of List I, with regard to rates of stamp duty.

52. Dues on passengers and goods carried on inland waterways.

53. Tolls.

54. Fees in respect of any of the matters in this list, but not including fees taken in any Court.

LIST III

CONCURRENT LEGISLATIVE LIST

PART I

1. Criminal law, including all matters included in the Indian Penal code at the date of the passing of this Act, but excluding offences against laws with respect to any of the matters specified in List I or List II and excluding the use of His Majesty's naval, military and air forces in aid of the civil power.

2. Criminal Procedure, including all matters included in the Code of Criminal Procedure at the date of the passing of this Act.

3. Removal of prisoners and accused persons from one unit to another unit.

4. Civil Procedure, including the law of Limitation and all matters included in the Code of Civil Procedure at the date of the passing of this Act; the recovery in a Governor's Province or a Chief Commissioner's Province of claims in respect of taxes and other public demands, including arrears of land revenue and sums recoverable as such, arising outside that Province.

5. Evidence and oaths; recognition of laws, public acts and records and judicial proceedings.

6. Marriage and divorce; infants and minors; adoption.

7. Wills, intestacy, and succession, save as regards agricultural land.

8. Transfer of property other than agricultural land; registration of deeds and documents.

9. Trusts and Trustees.

10. Contracts, including partnership, agency, contracts of carriage, and other special forms of contract, but not including contracts relating to agricultural land.

11. Arbitration.

12. Bankruptcy and insolvency; administrators-general and official trustees.

13. Stamp duties other than duties or fees collected by means of judicial stamps, but not including rates of stamp duty.

14. Actionable wrongs, save in so far as included in laws with respect to any of the matters specified in List I or List II.

15. Jurisdiction and powers of all courts, except the Federal Court, with respect to any of the matters in this list.

16. Legal, medical and other professions.

17. Newspapers, books and printing presses.

18. Lunacy and mental deficiency, including places for the reception or treatment of lunatics and mental deficients.

19. Poisons and dangerous drugs.

20. Mechanically propelled vehicles.

21. Boilers.

22. Prevention of cruelty to animals.

23. European vagrancy; criminal tribes.

24. Inquiries and statistics for the purpose of any of the matters in this part of this List.

25. Fees in respect of any of the matters in this Part of this List, but not including fees taken in any Court.

PART II

26. Factories.

27. Welfare of labour; conditions of labour; provident funds; employers' liability and workmen's compensation; health insurance, including invalidity pensions; old age pensions.

28. Unemployment insurance.

29. Trade unions; industrial and labour disputes.

30. The prevention of the extension from one unit to another of infections or contagious diseases or pests affecting men, animals or plants.

31. Electricity.

32. Shipping and navigation on inland waterways as regards mechanically-propelled vessels, and the rule of the road on such waterways ; carriage of passengers and goods on inland waterways.

33. The sanctioning of cinematograph films for exhibition.

34. Persons subject to preventive detention under Federal authority.

35. Inquiries and statistics for the purpose of any of the matters in this Part of this List.

36. Fees in respect of any of the matters in this Part of this List, but not including fees taken in any Court.

APPENDIX C

MAIN STATISTICS OF INDIAN STATES

TABLE I

	Number.	Area sq. miles.	Population.
1. States directly represented in the Chamber of Princes	109	609,619	69,811,612
2. Smaller States represented by 12 members in the Chamber of Princes .	126	73,627	8,212,719
3. Estates and Jagirs . .	—	13,120	811,922
4. N.W.F.P. States . .	—	22,838	2,259,288
		719,204	81,165,541

TABLE II

States directly represented in the Chamber of Princes.

1. Serial No.	2. Name of State.	3. Area in sq. miles.	4. Population.	5. Average revenue in thousands of rupees.
1.	Kalat with Las-Bela and Kharan . .	80,410	378,977	18,63
2.	Baroda . . .	8,135	2,443,007	2,49,00
3.	Rewa . . .	13,000	1,587,445	60,00
4.	Bhopal . . .	6,902	729,955	62,10
5.	Dewas (Senior) . .	449	77,005	9,49
6.	Dewas (Junior) . .	419	70,513	6,40
7.	Narsingarh. . .	734	113,873	9,51
8.	Rajgarh . . .	962	134,891	11,50
9.	Ajaigarh . . .	802	85,895	4,65
10.	Baoni . . .	121	19,132	1,22
11.	Bijawar . . .	973	115,852	3,53
12.	Charkhari . . .	880	120,351	6,69
13.	Chhatarpur . .	1,130	161,361	5,50

1. Serial No.	2. Name of State.	3. Area in sq. miles.	4. Population.	5. Average revenue in thousands of rupees.
14.	Datia	911	158,834	16,00
15.	Orchha	2,080	314,556	10,50
16.	Panna	2,596	212,130	10,96
17.	Samthar	180	33,307	1,35
18.	Indore	9,519	1,318,237	1,36,00
19.	Jaora	602	100,166	13,77
20.	Ratlam	693	107,321	10,00
21.	Sailana	297	35,223	3,55
22.	Sitamau	201	128,422	2,70
23.	Alirajpur	836	101,963	6,16
24.	Barwani	1,178	41,110	11,10
25.	Dhar	1,777	43,430	17,60
26.	Jhabua	1,336	145,522	4,40
27.	Gwalior	26,367	3,523,070	2,41,79
28.	Hyderabad	82,698	14,395,493	8,37,75
29.	Jammu and Kashmir	85,885	3,672,299	2,50,00
30.	Banganpalle	255	39,218	4,39
31.	Khilchipur	273	45,583	2,92
32.	Cochin	1,418	1,205,016	84,99
33.	Puducottai	1,179	400,694	21,73
34.	Travancore	7,625	5,095,993	2,49,69
35.	Mysore	29,475	6,423,189	3,58,36
36.	Bahawalpur	15,000	781,191	49,77
37.	Bilaspur (Kahlur)	448	98,000	3,00
38.	Chamba	3,216	141,867	8,38
39.	Faridkot	643	150,661	18,97
40.	Jind	1,259	308,183	29,32
41.	Kapurthala	630	284,275	37,00
42.	Loharu	222	20,621	1,30
43.	Maler Kotla	168	80,322	14,69
44.	Mandi	1,200	185,048	15,39
45.	Nabha	928	263,394	29,84
46.	Patiala	5,932	1,600,000	1,49,83
47.	Sirmoor	1,198	140,448	6,05
48.	Suket	420	54,328	2,25
49.	Alwar	3,212	701,154	55,00
50.	Bharatpur	1,993	496,954	29,45
51.	Dholpur	1,200	254,986	17,40
52.	Karauli	1,242	140,525	7,10
53.	Kotah	5,684	685,504	51,60
54.	Bundi	2,220	216,772	16,12
55.	Jhalawar	810	107,890	7,89
56.	Tonk	2,553	317,360	22,54

1. Serial No.	2. Name of State.	3. Area in sq. miles.	4. Population.	5. Average revenue in thousands of rupees.
57.	Jaipur	16,682	2,630,977	1,30,00
58.	Kishangarh	858	85,823	7,50
59.	Banswara	1,606	225,106	6,96
60.	Dungarpur	1,447	227,939	6,87
61.	Partabgarh	886	76,537	5,82
62.	Udaipur	12,915	1,563,575	53,09
63.	Bikaner	23,315	936,218	1,21,66
64.	Sirohi	1,964	216,528	10,03
65.	Jaisalmer	16,062	76,225	3,79
66.	Jodhpur	35,066	2,126,429	1,37,94
67.	Sikkim	2,818	109,651	5,10
68.	Bhavanagar	2,860	499,892	1,04,65
69.	Cutch	7,616	513,829	32,00
70.	Dhrangadhra	1,156	88,760	25,00
71.	Dhrol	283	27,053	2,87
72.	Gondal	1,025	206,166	50,00
73.	Junagadh	3,337	544,889	83,63
74.	Limbdi	344	40,084	7,00
75.	Morvi	822	112,987	40,00
76.	Nawanagar	3,791	408,851	1,12,59
77.	Palanpir	1,769	263,711	10,90
78.	Palitana	289	62,150	10,67
79.	Porbandar	642	115,741	22,25
80.	Radhanpur	1,150	70,521	7,72
81.	Rajkot	282	25,566	10,00
82.	Wankaner	417	44,307	7,43
83.	Wadhwan	242	42,617	6,77
84.	Manipur	8,456	445,606	8,03
85.	Cooch Bihar	1,318	590,866	37,75
86.	Tripura	4,116	382,219	33,50
87.	Mayurbhanj	4,243	886,745	28,20
88.	Sawantwadi	525	230,589	6,64
89.	Cambay	350	87,761	9,51
90.	Janjira	430	122,458	9,83
91.	Kolhapur	3,217	957,137	1,27,10
92.	Sangli	1,136	258,512	14,68
93.	Danta	347	23,023	1,76
94.	Idar	1,669	226,351	14,17
95.	Baria	813	159,429	12,06
96.	Chhota Udaipur	890	144,640	15,85
97.	Balasinore	189	52,525	2,64
98.	Lunawada	388	95,162	5,36
99.	Rajpipla	1,516	206,114	24,11

1. Serial No.	2. Name of State.	3. Area in sq. miles.	4. Population.	5. Average revenue in thousands of rupees.
100.	Sant	394	83,538	5,61
101.	Khairpur	6,050	227,166	17,52
102.	Bansda	215	48,807	7,81
103.	Dhrampur	704	112,051	11,70
104.	Sachin	49	222,125	4,00
105.	Jawhar	310	57,288	5,63
106.	Benares	875	391,165	20,09
107.	Rampur	892	464,919	43,00
108.	Tehri Garhwal	4,500	318,482	18,80
109.	Maihar	407	68,991	3,50

APPENDIX D

STATISTICS OF RAILWAYS IN INDIAN STATES

(Compiled from the Railway Administration Report, 1932–33.)

TABLE I

Summary of Capital at charge, Revenue earnings and expenses and mileage of Railways classified according to the methods of working for the year 1932–33.

Classification.	Route mileage on 31st Mar. 1933.	Capital in 000's of rupees.	Gross earnings in 000's.	Working expenses in 000's	Net earnings in 000's.
Indian States' lines worked by the States	4,958	37,52,35	4,53,55	2,78,43	1,75,12
Indian States' lines worked by the main lines . .	1,912	13,58,84	1,56,38	90,38	66,00
Companies' lines guaranteed by the States . .	38	15,78	1,16	90	26

TABLE II

Summary of Capital outlay of the Indian States' lines to the end of the year 1932–33 (in thousands of rupees)

Classification.	Works.	Railway stock.	General charges.	Stores, etc. not finally charged off in account.	Total.
Indian States' lines worked by the States	26,40,78	8,58,85	1,63,56	89,16	37,52,35
Indian States' lines worked by the main lines . .	11,54,57	1,19,90	77,87	6,50	13,58,84
Companies' lines guaranteed by States	8,42	5,60	11,76	—	15,78

APPENDIX E

STATEMENT OF REVENUE AND EXPENDITURE OF THE GOVERNMENT OF INDIA—1921–22 TO 1935–36.
(IN LAKHS OF RUPEES.)

Year.	Tax Revenue less cost of collection. (a)	Other Revenue net excluding Defence Receipts.	Total net Revenue.	Interest on Debt.	Reduction or avoidance of Debt.	Defence Expenditure net.	Transfers and Subventions to Provinces.	Other Expenditure Charged to Revenue.	Total Expenditure Charged to Revenue.	Surplus + Deficit –
1921–2 . .	60,78	17,65	78,43	13,70	4,46	69,81	—	18,11	1,06,08	–27,65
1922–3 . .	64,41	21,33	85,74	13,87	4,55	65,27	—	17,07	1,00,76	–15,02
1923–4 . .	66,66	30,45	97,11	15,97	3,62	56,23	—	18,90	94,72	+2,39
1924–5 . .	67,54	28,84	96,38	14,90	3,78	55,63	—	16,39	90,70	+5,68
1925–6 . .	68,10	25,29	93,39	13,37	4,97	56,00	—	15,74	90,08	+3,31
1926–7 . .	67,96	25,32	93,28	11,77	4,97	55,97	—	20,57	93,28	(b)
1927–8 . .	68,12	17,43	85,55	10,57	5,04	54,79	—	15,15	85,55	(c)
1928–9 . .	71,63	15,62	87,25	10,20	5,42	55,10	—	16,85	87,57	–32 (d)
1929–30 . .	71,74	19,46	91,20	10,85	5,74	55,10	—	19,24	90,93	+27
1930–1 . .	66,54	13,60	80,14	11,28	6,14	54,30	—	20,00	91,72	–11,58
1931–2 . .	69,52	7,77	77,29	12,83	6,89	51,76	—	17,56	89,04	–11,75
1932–3 . .	76,74	6,10	82,84	11,61	6,84	46,74	—	16,10	81,29	+ 1,55
1933–4 . .	69,66	5,77	75,43	9,29	3,00	44,42	(e) 2,72	16,00	75,43	—
1934–5 . .	73,28	5,76	79,04	10,28	3,00	44,34	(f) 5,06	16,23	78,91	+13
1935–6 . .	73,07	4,21	77,28	10,39	3,00	44,98	(g) 2,03	16,82	77,22	+ 6

(a) Excludes share of additional revenue from import and excise duties on motor spirit payable to Road Development Fund. (b) A surplus of 2,96 was transfered to Revenue Reserve Fund. (c) A deficit of 2,22 was met by transfer from Revenue Reserve Fund. (d) A deficit of 1,06 was met to the extent of 74 by transfer from Revenue Reserve Fund. (e) Represents the amount transferred to the Earthquake Fund, 62 out of this was subsequently utilised for debt redemption. (f) 1,69 transfer of Jute Export Duty, 18 Match Excise Duty for Burma, 5 for grants to Provinces from sugar Excise Duty, and 3,14 for transfers to the Earthquake and other Funds. (g) 1,79 transfer of Jute Duty, 18 Match Excise Duty for Burma and 6 for grants to Provinces from Sugar Excise Duty.

STATEMENT SHOWING THE INTEREST-BEARING OBLIGA
AT THE CLOSE OF

Interest-Bearing Obligations.	1923	1924	1925	1926
INDIA.				(In crores
Loans	339.83	358.81	370.38	368.29
Treasury Bills in the hands of the public	21.59	2.12	...	...
Ways and means advance	...	...	...	...
Treasury Bills in the Paper Currency Reserve	49.65	49.65	49.65	49.65
Other Obligations—				
Post Office Savings Banks	23.20	24.79	25.64	27.23
Cash Certificates	3.13	8.42	13.12	20.96
Provident Funds, etc.	36.17	39.00	42.39	46.36
Depreciation and Reserve Funds	...	...	9.08	15.45
Provincial Balances	2.86	4.17	4.83	11.87
Total Loans, etc.	411.07	410.58	420.03	417.94
Total Other Obligations	65.36	76.38	95.06	121.87
Total in India	476.43	486.96	515.09	539.81
ENGLAND.				(In millions
Loans	222.92	244.53	263.39	266.35
Capital value of Liabilities undergoing Redemption by way of Terminable Railway Annuities	61.31	60.10	58.84	57.53
War Contribution	19.71	19.27	18.81	18.32
India Bills	...	...	...	...
Provident Funds, etc..	.04	.13	.16	.21
Total in England	303.98	324.03	341.20	342.41
Equivalent at 1s. 6d. to the Rupee (in crores)	405.31	432.04	454.93	456.55
Total Interest-Bearing Obligations (in crores of Rs.)	881.74	919.00	970.02	996.36
Interest Yielding Assets—				
Capital advanced to Railways	517.22	537.02	578.05	605.61
Capital advanced to other Commercial departments	19.43	20.07	22.00	17.77
Capital advanced to Provinces	87.49	97.56	106.43	114.60
Capital advanced to Indian States and other Interest-Bearing Loans	8.90	8.93	10.16	11.84
Total Interest-Yielding Assets	633.04	663.58	716.64	749.82
Cash, Bullion and Securities held on Treasury Account	44.80	50.47	57.35	51.96
Balance of Total Interest-Bearing Obligations not covered by above Assets	203.90	204.95	196.03	194.58

DIX F

TIONS OF THE GOVERNMENT OF INDIA, OUTSTANDING
EACH FINANCIAL YEAR.

1927	1928	1929	1930	1931	1932	1933	1934	1935
of rupees)								
374.44	372.25	390.73	405.11	417.24	422.69	446.89	435.43	438.28
...	7.59	4.00	36.04	55.38	47.53	26.09	33.31	22.00
...	...	...	...	...	9.50	...	...	...
41.47	31.94	39.15	29.22	5.89	49.67	35.48	25.93	27.50
29.51	32.67	34.49	37.13	37.03	38.20	43.40	52.23	59.33
26.68	30.70	32.30	35.00	38.43	44.58	55.64	63.71	66.49
51.02	55.82	60.52	65.41	70.33	73.04	76.74	82.49	88.36
20.10	25.48	31.09	30.18	21.39	17.65	15.22	13.04	14.83
10.49	10.48	10.43	10.21	6.09	4.32	7.02	6.17	5.59
415.91	411.78	433.88	470.37	478.51	529.39	508.46	494.67	487.78
137.80	155.15	168.83	177.93	173.27	177.79	198.02	217.64	234.60
553.71	566.93	602.71	648.30	651.78	707.18	706.48	712.31	722.38
of pounds)								
265.09	272.32	283.31	289.03	316.81	313.60	314.33	321.01	323.57
56.19	54.79	53.35	51.86	50.32	48.72	47.06	45.35	43.58
17.81	17.28	16.72	16.72	16.72	16.72	16.72	16.72	16.72
...	...	...	6.00	4.05	...	...	...	...
.27	.19	.43	2.54	.69	.80	.91	1.03	1.15
339.36	344.58	353.81	366.15	388.59	379.84	379.02	384.11	385.02
452.48	459.44	471.75	488.20	518.12	506.45	505.36	512.15	513.36
1,006.19	1,026.37	1,074.46	1,136.50	1,169.90	1,213.63	1,211.84	1,224.46	1,235.74
635.46	668.60	700.69	730.79	743.98	750.73	756.75	754.94	756.84
19.16	20.73	21.81	22.70	23.65	24.25	21.89	23.23	23.71
120.17	126.34	137.52	142.60	151.82	163.64	173.04	175.20	179.22
12.11	13.91	15.49	17.65	19.45	20.29	20.92	21.11	21.26
786.90	829.58	875.51	913.74	938.90	958.91	972.60	974.48	981.03
37.48	24.26	28.34	45.36	34.03	41.42	35.69	45.03	51.52
181.81	172.53	170.61	177.40	196.97	213.30	203.55	204.95	203.19

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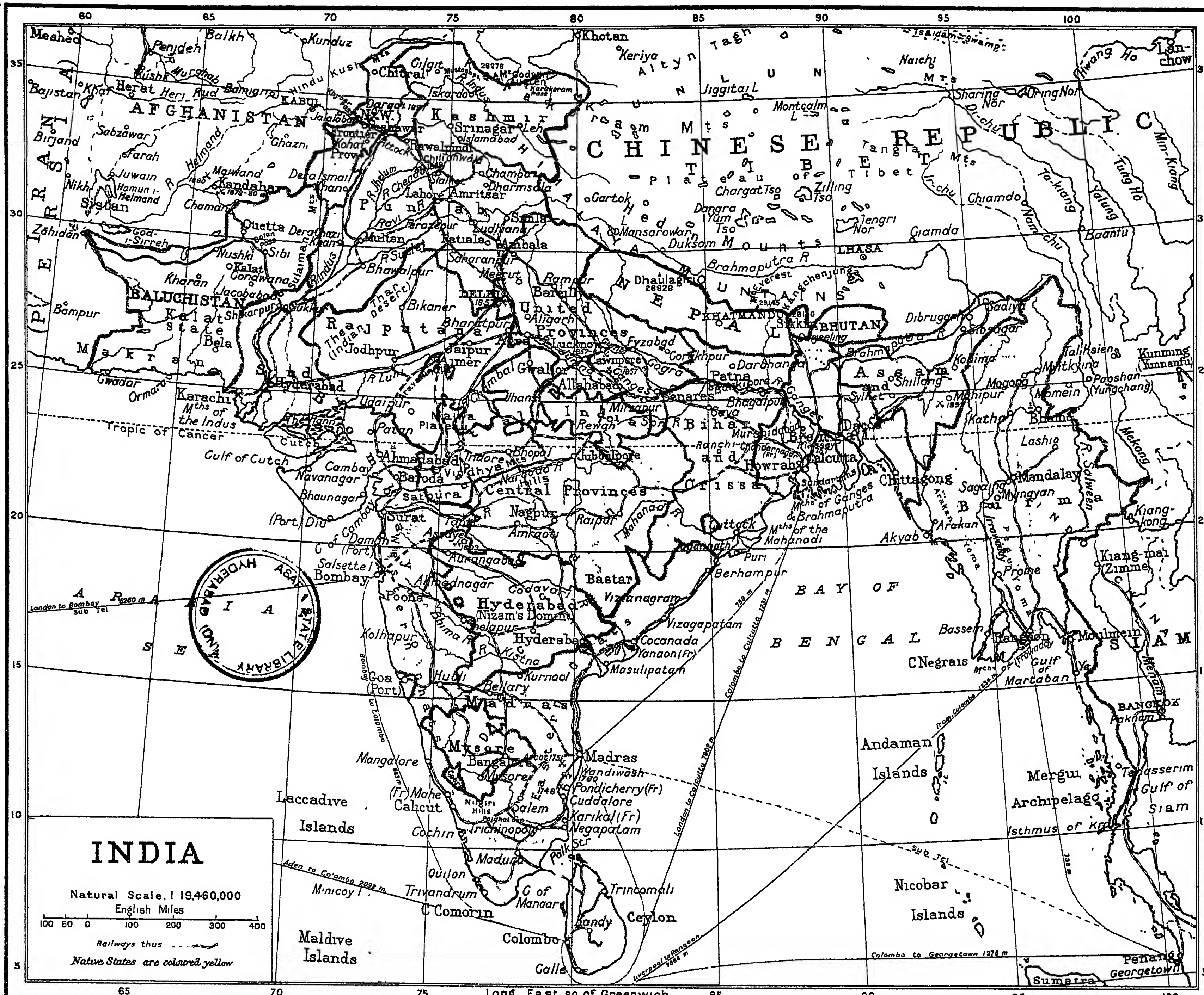

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